U.S.–CHINA BILATERAL TRADE AGREEMENT AND THE ACCESSION OF CHINA TO THE WTO

HEARING

BEFORE THE

COMMITTEE ON WAYS AND MEANS
HOUSE OF REPRESENTATIVES

ONE HUNDRED SIXTH CONGRESS

SECOND SESSION

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CONTENTS

U.S–CHINA BILATERAL TRADE AGREEMENT AND THE ACCESSION OF CHINA TO THE WTO

WEDNESDAY, FEBRUARY 16, 2000

HOUSE OF REPRESENTATIVES,
COMMITTEE ON WAYS AND MEANS,
WASHINGTON, DC.

The Committee met, pursuant to notice, at 10:28 a.m., in room 1100, Longworth House Office Building, Hon. Bill Archer, (Chairman of the Committee) presiding.

[The advisories announcing the hearing follow:]

ADVISORY

FROM THE COMMITTEE ON WAYS AND MEANS

FOR IMMEDIATE RELEASE CONTACT: (202) 225–1721
January 31, 2000
FC–16

Archer Announces Hearing on U.S.–China Bilateral Trade Agreement and the Accession of China to the WTO

Congressman Bill Archer (R–TX), Chairman of the Committee on Ways and Means, today announced that the Committee will hold a hearing on the recently concluded bilateral trade agreement between the United States and China and on the pending accession of China to the World Trade Organization (WTO). The hearing will take place on Wednesday, February 16, 2000, in the main Committee hearing room, 1100 Longworth House Office Building, beginning at 10:00 a.m.

Oral testimony at this hearing will be from both invited and public witnesses. Also, any individual or organization not scheduled for an oral appearance may submit a written statement for consideration by the Committee or for inclusion in the printed record of the hearing.

BACKGROUND:

China applied for accession to the General Agreement on Tariffs and Trade (GATT) in July 1986, and work has proceeded in the China Working Party since that time to negotiate the conditions upon which China will enter the WTO.

Article XII of the Agreement Establishing the World Trade Organization states that any State or separate customs territory may accede to the WTO "on terms to be agreed between it and the WTO." In practice, any WTO applicant must negotiate terms for membership in the WTO in the form of a Protocol of Accession. Through the operation of a Working Party, the United States and other WTO members have an opportunity to review the trade regimes of applicants to ensure that they are capable of implementing WTO obligations. In parallel with the Working Party's efforts, the United States and other interested member governments conduct separate negotiations with the applicant. These bilateral negotiations are aimed at achieving specific concessions and commitments on tariff levels, agricultural market access, and trade in services.

On November 15, 1999, Ambassador Barshefsky announced the successful completion of bilateral talks on China's accession to the World Trade Organization. The expansive market access agreement will provide broad market openings for U.S. agriculture, manufactured products and services, along with Chinese commitments to adopt WTO rules relating to such issues as technology transfer and offsets, subsidies, product safeguards, and State enterprises. In a separate agreement signed in April 1999, China agreed to end sanitary and phytosanitary bans on the importation of U.S. wheat, meat, and citrus products.

The Agreement represents a crucial step in China's WTO accession process. Other steps that remain ahead include the conclusion of bilateral negotiations with a number of other WTO members, as well as the multilateral negotiations on China's accession protocol. China then must complete its domestic process for implementing the country's WTO commitments.

Congressional approval of permanent normal trade relations (NTR) is *not* necessary for China to accede to the WTO. However, in order for American businesses, farmers, and workers to be guaranteed an opportunity to benefit from the trade concessions and better compete in China's markets, China's name must be removed from Title IV of the Trade Act of 1974, the so-called Jackson-Vanik amendment, which provides for an annual review of China's trade status based on freedom of emigration.

Otherwise, the United States would be in violation of Article I of the GATT, which requires the extension of "unconditional" most favored nation (or NTR) status, and subject to trade sanctions. If the United States does not remove the conditions imposed by Jackson-Vanik, the United States would have to invoke the non-application clause of the GATT, meaning that China would be able to withhold benefits of the 1999 bilateral agreement from the United States.

In response to progress achieved in China's WTO commitments represented by the bilateral agreement with the United States, President Clinton announced that he will work with other WTO member countries to gain China's entry in the WTO as soon as possible and will seek the legislation from Congress to grant permanent NTR status to China.

In announcing the hearing, Chairman Archer said: "One of the most important items for American workers, farmers and businesses this year is expanding trade with the most populous nation in the world. Whether we can actually capture these gains depends in large measure on the President's commitment to push for passage of legislation necessary to grant China permanent NTR trade status. I look forward to working with the President on opening China's borders to American-made products and services. As history has repeatedly shown, our economy and quality of life only grow stronger when we embrace international trade, not close our borders to it."

FOCUS OF THE HEARING:

The focus of the hearing will be to examine: (1) the opportunities and issues associated with the entry of China into the WTO, and (2) the potential benefits of the U.S.—China bilateral trade agreement for U.S. firms, workers, farmers, ranchers, and other interested parties. The Committee would also welcome testimony on how progress of China's accession to the WTO affects the pending application of Taiwan to join the WTO and the potential impact on the United States, China, Taiwan, and Hong Kong of normalized trade relations between the United States and China.

DETAILS FOR SUBMISSIONS OF REQUESTS TO BE HEARD:

Requests to be heard at the hearing must be made by telephone to Traci Altman or Pete Davila at (202) 225–1721 no later than the close of business, Tuesday, February 8, 2000. The telephone request should be followed by a formal written request to A.L. Singleton, Chief of Staff, Committee on Ways and Means, U.S. House of Representatives, 1102 Longworth House Office Building, Washington, D.C. 20515. The staff of the Committee will notify by telephone those scheduled to appear as soon as possible after the filing deadline. Any questions concerning a scheduled appearance should be directed to the Committee on staff at (202) 225–1721.

In view of the limited time available to hear witnesses, the Committee may not be able to accommodate all requests to be heard. Those persons and organizations not scheduled for an oral appearance are encouraged to submit written statements for the record of the hearing. All persons requesting to be heard, whether they are scheduled for oral testimony or not, will be notified as soon as possible after the filing deadline.

Witnesses scheduled to present oral testimony are required to summarize briefly their written statements in no more than five minutes. THE FIVE-MINUTE RULE WILL BE STRICTLY ENFORCED. The full written statement of each witness will be included in the printed record, in accordance with House Rules.

In order to assure the most productive use of the limited amount of time available to question witnesses, all witnesses scheduled to appear before the Committee are required to submit 300 copies, along with an IBM compatible 3.5-inch diskette in WordPerfect 5.1 format, of their prepared statement for review by Members prior to the hearing. Testimony should arrive at the Committee office, room 1102 Longworth House Office Building, no later than 10:00 a.m., Monday, February 14, 2000.

Failure to do so may result in the witness being denied the opportunity to testify in person.

WRITTEN STATEMENTS IN LIEU OF PERSONAL APPEARANCE:

Any person or organization wishing to submit a written statement for the printed record of the hearing should submit six (6) single-spaced copies of their statement, along with an IBM compatible 3.5-inch diskette in WordPerfect 5.1 format, with their name, address, and hearing date noted on a label, by the close of business, Wednesday, March 1, 2000, to A.L. Singleton, Chief of Staff, Committee on Ways and Means, U.S. House of Representatives, 1102 Longworth House Office Building, Washington, D.C. 20515. If those filing written statements wish to have their statements distributed to the press and interested public at the hearing, they may deliver 200 additional copies for this purpose to the Committee office, room 1102 Longworth House Office Building, by close of business the day before the hearing.

FORMATTING REQUIREMENTS:

Each statement presented for printing to the Committee by a witness, any written statement or exhibit submitted for the printed record or any written comments in response to a request for written comments must conform to the guidelines listed below. Any statement or exhibit not in compliance with these guidelines will not be printed, but will be maintained in the Committee files for review and use by the Committee.

1. All statements and any accompanying exhibits for printing must be submitted on an IBM compatible 3.5-inch diskette in WordPerfect 5.1 format, typed in single space and may not exceed a total of 10 pages including attachments. Witnesses are advised that the Committee will rely on electronic submissions for printing the official hearing record.

2. Copies of whole documents submitted as exhibit material will not be accepted for printing. Instead, exhibit material should be referenced and quoted or paraphrased. All exhibit material not meeting these specifications will be maintained in the Committee files for review and use by the Committee.

3. A witness appearing at a public hearing, or submitting a statement for the record of a public hearing, or submitting written comments in response to a published request for comments by the Committee, must include on his statement or submission a list of all clients, persons, or organizations on whose behalf the witness appears.

4. A supplemental sheet must accompany each statement listing the name, company, address, telephone and fax numbers where the witness or the designated representative may be reached. This supplemental sheet will not be included in the printed record.

The above restrictions and limitations apply only to material being submitted for printing. Statements and exhibits or supplementary material submitted solely for distribution to the Members, the press, and the public during the course of a public hearing may be submitted in other forms.

Note: All Committee advisories and news releases are available on the World Wide Web at “http://waysandmeans.house.gov”.

The Committee seeks to make its facilities accessible to persons with disabilities. If you are in need of special accommodations, please call 202–225–1721 or 202–226–3411 TTD/TTY in advance of the event (four business days notice is requested). Questions with regard to special accommodation needs in general (including availability of Committee materials in alternative formats) may be directed to the Committee as noted above.

NOTICE—CHANGE IN TIME

ADVISORY

FROM THE COMMITTEE ON WAYS AND MEANS

FOR IMMEDIATE RELEASE CONTACT: (202) 225–1721
February 11, 2000
No. FC–16-Revised

Time Change for Full Committee Hearing on Wednesday, February 16, 2000, on U.S.–China Bilateral Trade Agreement and the Accession of China to the WTO

Congressman Bill Archer (R–TX), Chairman of the Committee on Ways and Means, today announced that the full Committee hearing on the recently concluded bilateral trade agreement between the United States and China and on the pending accession of China to the World Trade Organization, previously scheduled for Wednesday, February 16, 2000, at 10:00 a.m., in the main Committee hearing room, 1100 Longworth House Office Building, will begin instead at 10:30 a.m.

All other details for the hearing remain the same. (See full Committee press release "fc–16.htm" No. FC–16, dated January 31, 2000.)

Chairman ARCHER. The committee will come to order. Opening statements will be suspended until the special trade representative, Ms. Barshefsky, arrives.

We will go ahead with our opening panel of House members: Chris Smith of New Jersey, Nancy Pelosi of California, Cal Dooley of California, Jim Moran of Virginia, Joe Knollenberg of Michigan, Earl Blumenauer of Oregon, and Greg Walden of Oregon. If those members will come to the witness table, we will be ready to hear from you.

Pending the arrival of the others, Congressman Knollenberg, would you lead off.

STATEMENT OF HON. JOE KNOLLENBERG, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF MICHIGAN

Mr. KNOLLENBERG. Mr. Chairman, I would be delighted to if that would be appropriate.

Mr. Chairman, I want to thank you for holding this hearing and, obviously, thanks also to all of the members of this committee. I appreciate the opportunity to testify here today because there are important benefits that the United States will receive from China's entry into the World Trade Organization. I also commend you for holding this hearing, which I hope will provide members and the American people with a greater understanding of why this agreement is essential to level the playing field for U.S. interests, including an industry particularly important to my constituents, which is the U.S. automotive industry.

At long last, China has agreed to play by the global trading rules, and all U.S. industries that export to China will benefit from broad reductions in Chinese barriers to trade. The WTO Agreement provides the greatest access to the Chinese market that American businesses have ever enjoyed without requiring any, any reduction in any U.S. tariff or trade barrier. In other words, China has agreed to a unilateral reduction in its trade barriers, while U.S. industries remain protected. They do everything; we, in effect, do nothing.

In addition, China has also agreed to eliminate barriers which have encumbered specific U.S. industries including, not just including, but also including the auto industry, insurance, financial services, agriculture and many others. As we evaluate the significance of this agreement, it is important for all of us to understand what these changes will do to create new business opportunities for these exporting industries. As an example, however, today, I would like to focus just on the automotive industry.

In the case of the automotive industry, China is, by far, the world's largest emerging market and one of the last automotive frontiers. As a result, the auto market in China is expected to more than double to 4.6 million vehicles by the year 2010. This increase is expected to account for 25 percent of the world's growth in vehicle demand over the next decade.

Currently, due to Chinese trade barriers, U.S. car companies are practically locked out of this market. However, under the U.S.—China WTO Agreement, these barriers will be eliminated and American companies will be able to expand their exports as Chinese demand grows.

Here are a few specifics:

First of all, under current Chinese trading laws, tariffs on U.S. automobiles equal 80 to 100 percent—I will repeat that—they equal 80 to 100 percent of the price of the car. This alone effectively prices out the vast majority of U.S. models. However, under the WTO Agreement, this tariff rate will be reduced to 25 percent by the year 2006. Moreover, the phase-in of the reduction is front-loaded to provide steeper declines in the earlier years. Duties on parts will also drop from 25 percent to an average of 10 percent. These tariff reductions will break down the wall that U.S. auto companies have faced and increase access to Chinese markets for U.S. exports.

Secondly, current Chinese law contains a variety of subsidies and special preferences for local Chinese firms which give them artificial advantages in the Chinese market. To make matters worse, there are also unique requirements for U.S. firms such as separate inspection regimes, technology transfer requirements and content restrictions. These further prevent U.S. auto companies from competing on a level playing field.

Under the WTO Agreement, all of these barriers will be eliminated. This provides the auto industry, as well as industries across the board, a more level, competitive business environment.

Third, under current Chinese practices, U.S. automotive companies are prohibited from distributing their vehicles. They cannot engage in wholesale, direct sales, retail advertising or even transportation of their vehicles. U.S. car companies can't even perform maintenance and repair on the vehicles that they produce. However, under the WTO Agreement, American business will be able to participate freely in the distribution of their products. With these restrictions eliminated, American companies will be able to improve their sales due to their ability to respond more effectively to the variations in the Chinese market.

Fourth, U.S. auto companies currently are not permitted to provide financing for the purchase of vehicles in China. For that matter, not even U.S. financial firms are allowed to participate or provide auto financing in China. The only type of financing allowed in China is through state-run banks, and they don't even make loans for cars.

However, under the WTO Agreement, both U.S. financial firms and U.S. auto companies will be able to provide the service. For the first time, the Chinese people will be allowed to borrow money to buy a car—something that most Americans take for granted. Again, this creates increased business opportunities for American products, and we should also note that this financing provision is a major improvement from the April agreement.

As we can all see, the U.S.—China WTO Agreement represents an incredible opportunity for all U.S. exporting industries, including the auto industry. By breaking down the longstanding Chinese barriers to U.S. products, we create improvements to our own economy, while strengthening our relationship with this growing world power.

In closing, I would just like to remind my colleagues that in order for the Chinese to play fairly, we need a referee. That is why China's involvement in the WTO is essential to break down the barriers to economic opportunity and create a fair opportunity for everybody.

And, Mr. Chairman, once again, I much appreciate your allowing me to testify here today, and I appreciate the early appropriateness of my being able to come on first.

Thank you very much. I look forward to working with you.

[The prepared statement follows:]

Statement of the Hon. Joe Knollenberg, a Representative in Congress from the State of Michigan

Mr. Chairman and Members of the Committee, I appreciate the opportunity to testify here today about the important benefits the United States will receive from China's entry into the World Trade Organization. I also commend you for holding this hearing, which I hope will provide Members and the American people with a greater understanding of why this Agreement is essential to level the playing field for U.S. interests, including an industry particularly important to my constituents: the U.S. automotive industry.

At long last, China has agreed to play by the global trading rules and all U.S. industries that export to China will benefit from broad reductions in Chinese barriers to trade. The WTO Agreement provides the greatest access to the Chinese market that American businesses have ever enjoyed, without requiring ANY reduction in ANY U.S. tariff or trade barrier. In other words, China has agreed to a UNILATERAL reduction in its trade barriers while U.S. industries remain protected.

In addition, China has also agreed to eliminate barriers which have encumbered specific U.S. industries, including the auto industry, insurance, financial services, agriculture, and many others. As we evaluate the significance of this Agreement, it's important for all of us to understand what these changes will do to create new business opportunities for these exporting industries.

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In closing, I'd like to remind my colleagues that in order for the Chinese to play fairly, we need a referee. That's why China's involvement in the WTO is essential to break down the barriers to economic opportunity and create a fair opportunity for everyone.

Mr. Chairman, thank you once again for allowing me to testify here today and I look forward to working with you on this issue.

Chairman ARCHER. Thank you, Congressman Knollenberg.

Our next witness is another one of our colleagues, Congressman Jim Moran. I am sure all of you gentleman realize that we operate under a 5-minute rule. Without objection, your entire printed statement will be put into the record.

Congressman Moran?

STATEMENT OF HON. JAMES P. MORAN, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF VIRGINIA

Mr. MORAN. Thank you very much, Mr. Chairman. I do appreciate the opportunity to testify in what I think is going to be the most important issue that this Congress will decide all year. At the outset, I want to commend you, Mr. Archer, as well as the ranking minority member, Mr. Rangel, for the bipartisan progressive approach that this committee has taken with respect to trade policy.

These are obviously difficult and contentious issues, and there have been times when the House has been unable to form a consensus on important trade legislation. The failure of the Congress to grant Fast Track authority for the President in 1997 was a case in point, and we will never know how much business we lost. Fortunately, it is a booming economy, and we have not felt the potential effects of such a wrong decision. But it is the members of the Ways and Committee who best understand the complexities and the conflicts in trade policy, and so we are well served when we have bipartisan leadership on issues like this. Let's hope that we are going to be more successful on this issue.

Our service-based industries is what I want to particularly focus on because they have an enormous stake in open trade in China. The November 15th agreement between the U.S. and China on WTO accession stands as a victory for many parts of our economy, but particularly for the service sector. I represent particularly that industry in Northern Virginia, and the reason why we are doing so well is because of the increased productivity, the technology, all of the things that provide us with more jobs and greater economic growth. But when you talk about an industry with such growth, you recognize we can never sustain the rate of growth we are experiencing today and that is propelling our stock market because of the rates of productivity if we cannot open up new markets. That is a reality.

The thing we have to concern ourselves the most, in terms of sustaining the prosperity we are experiencing, is finding marketplaces for the products we are capable of producing because this Nation will never be able to consume what we are capable of producing. And that is why a nation with 1.25 billion people and an annual rate of growth that exceeded 11 percent between 1990 and 1997 is so critical.

The WTO Basic Telecommunications Agreement marks the first time China has agreed to open its telecommunications sector to direct foreign investment and to implement regulatory policies that foster more competition. This part of the agreement specifies that the Internet will become available at the same rate as other telecommunication services are made to the China people. And equally encouraging, tariff reductions on computers, semiconductors and other information technology equipment will fall from an average tariff barrier now of 13.3 percent to zero by the year 2005. That is going to result in profound changes, not just within the Chinese economy, but within the Chinese society as well because information is empowering and transforming. And I think that opening up the Internet to the Chinese people is a greater threat to that Chinese Government than anything else we could do, far more than any kind of ballistic weapon because it opens up the world of ideas to the people, and they are not going to be—no way they can control the information going through the Internet.

We also have market-opening concessions in financial services, banking, insurance, securities. It is going to give American companies a greater ability to own their own distribution chains, which is essential if our domestic manufacturers are to build and sustain markets in China for their goods. They have got to be able to get insurance, they have got to be able to borrow capital. They need these investment companies to be able to have their own distribution chains not controlled by the Government. So when you have those distribution networks for goods, retaining ownership, you can also recruit locally, and you are going to be creating corporate capitalism that will have profound changes in Chinese society. The Chinese people are going to be wanting those jobs, and they are going to be paying a lot more than any industrial sector that the Government is running today.

In professional services, expanded access in accounting, engineering, management consulting, law, all of our expertise in these areas is going to further accelerate the pace of change in China by helping to develop modern management, transparent financial systems, encouraging a uniform body of business law, all to our interests.

What is perhaps most remarkable, Mr. Chairman, is this agreement is a one-way street. The Chinese are the ones that are dropping their tariff and their nontariff barriers. It is not us because we have the freest economy, in terms of a large country, in the world. And all they are looking for is accession to the WTO. It makes eminent sense, it is in our interests. I know virtually nothing, I can't imagine anything in this agreement that doesn't ultimately revert to our interests. And that is why I find it difficult to understand why some people are so adamantly opposed to it because, it seems to me, when you open up trade, commerce and particularly information and ideas, it cannot be long before democracy, and free enterprise and human rights flourish.

China was one of the founding members of the WTO, right after the war. They were an ally of us. It was when Mao, in 1949, brought them back into the Dark Ages, but that is current enough that it is going to take a very short period of time before they are able to be competitive to create the kind of marketplace that we need for our goods. I don't want to belabor this, Mr. Chairman. But the fact is that we are on the verge of a whole new economy, a whole new global society, where we are going to be the leaders. We are going to benefit the most. We are going to have the highest quality of life, the most new products, the highest profit margins. And this is the first step in doing that.

China should be, must be an ally of ours in a world of free enterprise, and democracy and individual liberties. If we isolate them, all we are going to do is encourage the repression of human rights and Government control. The worst time in China during the Cultural Revolution was when we were trying to isolate China. The best times are now. We have got to encourage those people who get it, who see the future and are not so bound by the past. We can't be bound by the past. We have to see the future vision that many members on this committee, certainly the White House, and I think the vast majority of the American people recognize. We need an economic interdependency not just for our own military security, but for our economic prosperity.

It's a great opportunity. I hope we seize it, Mr. Chairman. And I appreciate the leadership of the Ways and Means Committee in that regard.

Thank you, Mr. Chairman.

[The prepared statement follows:]

Statement of the Hon. James P. Moran, a Representative in Congress from the State of Virginia

I appreciate the opportunity to testify this morning about whether this nation should establish Permanent Normal Trade Relations (PNTR) with the People's Republic of China. This may be the most important issue this Congress will decide all year.

At the outset, I want to commend you, Chairman Archer, as well as our ranking minority member, Mr. Rangel, for the bipartisan approach that this Committee has taken with respect to trade policy. These are obviously difficult and contentious issues. There have been times when the House has been unable to form a consensus on important trade legislation. The failure of Congress to grant Fast Track authority to the President in 1997 is a case in point. It is the members of the Ways and means Committee who best understand the complexities and the conflicts in trade policy. The House would have been well served by following the bipartisan leadership of this Committee. Let us hope that we will be more successful this year with CBI, Africa and China.

Mr. Chairman, I am privileged to represent a region with one of the strongest and most vibrant economies anywhere in the United States. The Greater Washington Metropolitan region and Northern Virginia in particular are quickly becoming the Silicon Valley of the east. More than half the Internet traffic in the world is routed through Northern Virginia. In the last 30 years, our region has created 1.7 million new jobs with 95 percent of them in the private sector. This is during the same period that saw a cut of 50,000 Federal employees in our area. These new jobs are almost entirely in the service sector, particulary in information technology. More than 3,000 regional Information Technology companies have sales greater than $1 million. The unemployment rate in my district is below two percent.

We are just one part of a larger service sector that provides 86 million private sector jobs nationwide and accounts for $5.5 trillion worth of production. That equals more than 75 percent of our nation's private sector economic production and is a major contributing factor to our unprecedented levels of sustained productivity growth.

Our service-based industries have an enormous stake in open trade with China. The November 15th agreement between the US and China on WTO accession stands as a victory for many parts of our economy, but it is particulary good news for the service sector. It presents industries like those I represent with new opportunities to succeed in a market with 1.25 billion people and an annual rate of growth that exceeded 11 percent between 1990 and 1997. The Chinese people want the services we sell them.

The agreement provides that China will adhere to the WTO's Basic Telecommunications Agreement. This marks the first time China has agreed to open its telecommunications sector to direct foreign investment and to implement regulatory policies that foster more competition. This part of the agreement specifies that the Internet will become available at the same rate as other telecommunications services are made available to the Chinese people. Equally encouraging tariffs on computers, semiconductors and other information technology equipment will fall from an average of 13.3 percent to zero by 2005. These changes should result in more Chinese receiving more information through the Internet than ever before. Information is empowering and transforming.

The agreement contains market-opening concessions by the Chinese in financial services, banking insurance and securities. It will give American companies a greater ability to own their own distribution chains, which is essential if our domestic manufactures are to build and sustain markets in China for their goods. Currently, foreigners may only own distribution networks for goods made in China. But while we will be retaining ownership, we will be recruiting locally, and creating corporate capitalism that will have profound changes on Chinese society.

In the professional services, the agreement will allow expanded access in a broad range of areas, including accounting, engineering, management consulting, and law. Western expertise in these areas will further accelerate the pace of change in China by helping to develop modern management and financial systems, transparency of transactions, and encouraging a uniform body of business law.

What perhaps is most remarkable about this agreement is that it is largely a one way street for the United States. The Chinese agreed to these and other far reaching trade concessions in exchange for a commitment by the United states to keep our markets open and to support Chinese accession to the WTO. Assuming that China does enter the WTO, the agreement allows us to take action in the event of an import surge from China. That authority lasts for 12 years after accession. China's membership in the WTO would also carry with it all of the reciprocal responsibilities that are attendant to any member nation, thus providing the United States a level playing field and an objective multinational forum within which to enforce agreements.

Many will oppose Permanent Normal Trade Relations with China. They no doubt will be motivated by a deep and sincere concern over China's record on human rights. I think all of us share their concerns. The recent brutal oppression of practitioners of Falun Gong, the detention of protesters, and the thousands that remain imprisoned simply because of their political beliefs underscore the fact that the United States must remain extremely vigilant in pressing China whenever and however we can to improve its record of human rights.

This is, however, a debate that is more about the means to achieving an objective than it is about the objective itself. I am convinced that the best way of effecting change in China is through engagement, which will lift more of the Chinese people out of poverty, spread our values and increase the interdependence of nations. The alternative of isolating China will only exacerbate the suffering and deprivation of their people.

There is a danger in viewing China through the snapshot of today's headlines. To look only at China in the present is to see a nation beset with human rights abuses, municipal corruption and inefficiency. To look at China over the span of twenty years or even five years is to see a dynamic nation moving inexorably toward a market oriented economy and genuine reform. With economic change will come prosperity, and with this broader prosperity the people will demand political change.

It is no coincidence that some of the biggest proponents of change support PNTR. The leader of Hong Kong's Democratic Party, Martin Lee, supports the agreement, as do others who support reform and change. They all want constructive, permanent change—not destructive, political conflict.

Mr. Chairman, earlier this morning I hosted an informational breakfast in Arlington for several dozen business leaders from throughout Northern Virginia. This morning's breakfast featured a presentation by Ambassador Barshefsky. As she has been doing all over the world, Ambassador Barshefsky briefed the group on the administration's trade agenda, discussed the enormous opportunities in the global economy, listened to audience concerns, and answered questions.

The men and women that Ambassador Barshefsky and I met with this morning were but a small sample of the New Economy in Northern Virginia. They were drawn from the high technology sector, telecommunications, and professional services. They understand perhaps better than any of us the realities of globalization in the 21st century.

They understand that in a world of dynamic change, real time communication, and intense competition, it is no longer possible for the United States to "go it alone." There is no way that this country alone can possibly consume what we are capable of producing. To sustain the growth that we have enjoyed in Northern Virginia, we must compete and succeed everywhere—including China.

Extending Permanent Normal Trade Relations to China gives our country its fullest opportunity to compete and succeed. I urge this Committee to support PNTR.

Thank you.

Chairman ARCHER. Thank you, Congressman Moran. The chair, again, informs members who are witnesses that we are operating under the 5-minute rule, and we would appreciate your limiting your oral testimony to five minutes. And without objection, your entire printed statement will be put in the record.

Congressman Walden, I believe you were the next to arrive, and Congressman Blumenauer will follow you.

Congressman Walden, welcome.

STATEMENT OF HON. GREG WALDEN, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF OREGON

Mr. WALDEN. Thank you very much, Mr. Chairman, and members of the committee for affording me the opportunity to speak here today on the significance of the bilateral trade agreement reached last year with China.

I appreciate the opportunity to discuss significant gains for the United States under this agreement, as well as what China's accession into the World Trade Organization would mean for my State, that of Oregon.

Poised on the Pacific Ocean, bordered by the Columbia River, Oregon has long been a gateway for trade with Asia. Oregonians are savvy and experienced traders who see the potential for trade with our friends across the Pacific Ocean as an opportunity to share with them the quality products that we either design, produce or grow. Trade agreements, such as the bilateral agreement signed with China, are critical to their success in the burgeoning world marketplace.

The bilateral agreement negotiated last year between the U.S. and China made great strides toward improving trade between our two countries and sets the stage for China's accession into the WTO. I applaud the agreement that was made with China during these negotiations to drop their sanitary and phytosanitary barriers on Pacific Northwest wheat, for example. For 26 years, China kept wheat from the Pacific Northwest out of their country by use of the sanitary and phytosanitary barriers. The wheat farmers in my district, indeed throughout the Pacific Northwest, pride themselves on their high-quality wheat and applaud China's lifting of these unfair barriers.

The Market Access Agreement negotiated by the U.S. and China further benefits farmers and ranchers by slashing China's overall tariff on agricultural products to 17.5 percent, with further reductions to many specific commodities upon China's accession into WTO. It establishes a tariff rate quota for many bulk commodities such as wheat, which guarantees low tariff access for specific quantities.

Under this agreement, China further agreed to eliminate direct export subsidies for their agricultural products, leveling the playing field for U.S. ag producers. Farmers and ranchers in the Northwest understand the vast potential of China's market. For example, the Oregon Potato Commission estimates they could see a reduction in the tariff on frozen french fries from 25 percent to 13, should China be admitted into the WTO. The Commission further projects exports of U.S. frozen french fries to grow exponentially under the 13-percent tariff rate, and indicates they could exceed 250,000 metric tons by 2005. This is an amazing figure when compared with 15,000 metric tons exported in 1997.

The Market Access Agreement is also important to many businesses that help fuel Oregon's economy. With high technology exports accounting for 41 percent of Oregon's trade with China in 1998, it is indeed encouraging to see tariffs on products such as computers, semiconductors and all Internet-related equipment fall from an average of 13.3 percent to zero by 2005 under the Market Access Agreement. Oregon's diverse manufacturing industry would also be helped by the industrial tariff reduction from 24.6 percent in 1997, an average of 9.4 percent by 2005.

Our businesses are also concerned about the piracy of intellectual property rights in China. Piracy of American intellectual property rights for business software and trademarks is widespread and costing businesses countless dollars each year. Should China be admitted to the WTO, our businesses will finally have a solid foundation from which these issues can be resolved through the rule of law, through the dispute settlement mechanisms built into the WTO and the other enforcement mechanisms agreed to in this agreement.

Currently, U.S. markets are open to China, but numerous obstacles still exist for American access to the Chinese marketplace. Congress has a limited chance to balance the scales and provide vast opportunities for American enterprise when we vote to extend permanent normal trade relation status to China.

This is a critical time for us all. Should we fail to enact PNTR status on China, we will face an extreme trading disadvantage with other countries around the world, countries who will be more than eager to see the U.S. default on the opportunity to fill China's demand for quality products. So let's seize this golden opportunity for the United States.

Mr. Chairman, members of the committee, thank you for the opportunity to state these significant benefits that are so important in our trading relationship with China and the security, both economic and otherwise, for America.

[The prepared statement follows:]

Statement of the Hon. Greg Walden, a Representative in Congress from the State of Oregon

Thank you Chairman Archer and members of the committee for affording me the opportunity to speak here today on the significance of the bilateral trade agreement reached last year with China. I appreciate the opportunity to discuss significant gains for the U.S. under this agreement, as well as what China's accession into the World Trade Organization (WTO) would mean for the state of Oregon.

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The market access agreement negotiated by the U.S. and China further benefits our farmers and ranchers by slashing China's overall tariff on agricultural products to 17.5%, with further reductions to many specific commodities upon China's accession into the WTO. It establishes a Tariff Rate Quota for many bulk commodities, such as wheat, which guarantees low tariff access for specified quantities. Under this agreement China further agreed to eliminate direct export subsidies for their agricultural products, leveling the playing field for U.S. agricultural producers.

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The Commission further projects exports of U.S. frozen french fries to grow exponentially under the 13% tariff-rate, and indicate that they could exceed 250,000 metric tons by 2005. This is an amazing figure when compared with 15,000 metric tons exported in 1997.

The market access agreement is also important to the many businesses that help fuel Oregon's economy. With high technology exports accounting for 41% of Oregon's trade with China in 1998, it is encouraging to see tariffs on products such as computers, semiconductors, and all internet-related equipment fall from an average of 13.3% to 0% by 2005 under the market access agreement. Oregon's diverse manufacturing industry would also be helped by the industrial tariff reduction from 24.6% in 1997 to an average of 9.4% by 2005.

Oregon's businesses are also concerned about the piracy of their intellectual property rights in China. Piracy of American intellectual property rights for business software and trademarks is widespread and is costing our businesses countless dollars each year. Should China be admitted to the WTO, Oregon's businesses will finally have a solid foundation from which these issues can be resolved through the dispute settlement mechanisms built into the WTO.

Currently, U.S. markets are open to China but numerous obstacles still exist for American access to the Chinese marketplace. Congress will have a limited chance to balance the scales and provide vast opportunities for American enterprise when we vote to extend Permanent Normal Trade Relations (PNTR) status to China. This is a critical time for us all. Should we fail to bestow PNTR status on China, we will face an extreme trading disadvantage with other countries around the world—countries who will be more than eager to see the U.S. default on the opportunity to fill China's demand for quality products. Let's not let this golden opportunity for the United States slip by.

Mr. Chairman and members of the committee, thank you for the opportunity to reiterate the significant benefits at stake in our trading relationship with China.

Chairman ARCHER. Thank you Congressman Walden.

Congressman Blumenauer, welcome.

STATEMENT OF HON. EARL BLUMENAUER, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF OREGON

Mr. BLUMENAUER. Thank you, Mr. Chairman and members of the committee. I, too, applaud your leadership and appreciate the opportunity to share some observations with you about the challenge of trade with China and its entry into the WTO.

Trade is clearly a major component of our dynamic economy, and China is a large piece of that equation now and will be more significant in the future. I, for one, will not dwell on the facts and figures since the record is already clear and the statistics staggering. Instead, I would wish to make three points about the importance of trade with China, the economic future of the Pacific Northwest, where Congressman Walden and I share adjacent districts and the economic future of America.

First, this agreement advances United States economic interests with little or no risk to us;

Second, the best approach to improving China's appalling record on human rights and democracy is through freer, more open trade promoted by this agreement;

And, third, of special interest to me, is the potential for this agreement for improving the economy and promoting livable communities around the globe.

If we are to enhance or even maintain our economic growth, we must be able to protect our markets and find areas of expansion. Our adoption of the trade agreement with China and its entry into the WTO offers tremendous upside benefits, expanding new markets by eliminating tariffs and structural barriers to the United States commerce. The risks are minimal, and you will hear this over and over again, and I risk repeating it. But I think there is no more important point for us to stress. Our markets are already open. So we give away very little.

The products that the Chinese offer are, by and large, those for which there is already significant competition with other developing countries in Asia and Latin America. And as I said, the upside potential for the United States is huge. The risk is minimal.

The Chinese record on human rights and democracy is, frankly, appalling. And you are going to hear some people today suggest that we turn our backs on this opportunity in order to further punish the Chinese. I am here to applaud the leadership and the advocacy of my colleagues who are going to join me on the panel, even though I don't necessarily agree with their approach.

We need to continue to shine the spotlight on Chinese behavior, and I will continue to join them and you to do so, regardless of the fate of this legislation and the WTO Agreement. We simply have no other choice than to be true to our convictions. But from the bottom of my heart, I believe that we have more tools to hasten the advent of democracy in China by forcing them to play by international economic rules.

The quarter-century has seen real progress in China. Despite continued abuses, we are seeing the power of human exchange through the entry of missionaries, through the growing number of Chinese being educated abroad and now through the Internet. All of these trends will only be advanced by China's admission to the WTO and playing by economic international rules of the rest of us.

Finally, and most important from my perspective, we cannot afford to allow China to follow the United States' pattern of economic development. In this country, it has taken us decades to develop the technology, the will and the financial resources to clean up the environment. China's economic development has the potential to wreak havoc on the world's environmental base. Think of what would happen if China's 1.1 billion people used energy at the rate of the United States. We have ten times their per capita use of energy; eight times the carbon monoxide emissions; twelve times the electricity use. Reaching those levels would be environmentally devastating, not only for China, but for the world. But it doesn't have to be that way. Including China in the WTO can put the world's most populace nation on the right track: modernizing their markets and generating the wealth to pay for environmental protection, to say nothing of providing a market for United States' technologies and services for clean air, clean water and energy conservation.

Let me say in closing that the role the United States business has played in leading the way for the environment and workplace safety in China has too often been overlooked. A small Oregon shoe company, Nike, has required its overseas contractors to meet OSHA clean air standards in facilities abroad. Nike has even held seminars for its contractors and its competitors on the advantages of less toxic and cheaper water-based solvents, which are not only better for the environment, but which build better products.

If we believe that the market can improve living conditions and change behavior here at home, we should offer the same choice to 1.1 billion Chinese.

I thank you for the opportunity to share my opinions with you and look forward to working with you as we move this forward.

[The prepared statement follows:]

Statement of the Hon. Earl Blumenauer, a Representative in Congress from the State of Oregon

Mr. Chairman and members of the Committee, I appreciate the opportunity to share some observations with you about the challenge of trade with China and its entry into the WTO. Trade is clearly a major component of our dynamic economy. China is a large piece of that equation now, and will be more significant in the future.

I will not dwell on the facts and figures, since the record is clear and the statistics staggering. Instead, I will make three points about the importance of trade with China to the economic future of the Pacific Northwest, which I represent, and to the economic future of America.

First, this agreement advances U.S. economic interests with little or no risk to us.

Second, the best approach to improving China's appalling record on human rights and democracy is through the freer, more open trade promoted by this agreement.

Third, and of special interest to me, is the potential for this agreement for improving the economy and promoting livable communities around the globe.

• To the first point. If we are to enhance or even maintain our economic growth, we must be able to protect our markets and find areas of expansion. Our adoption of the trade agreement with China and its entry into the WTO offers tremendous upside benefits, expanding new markets by eliminating tariffs and structural barriers to United States commerce. The risks are minimal. Our markets are already open, so we give away very little. The products the Chinese offer are ones where there is already significant competition with other developing countries in Asia and Latin America. As I said, the upside potential for the US is huge; the risk is minimal.

• The Chinese record on human rights and democracy is frankly appalling. I applaud my colleagues on all sides of the China issue for shining the spotlight on Chinese behavior, and I will continue to join with them to do so regardless of the fate of this legislation and the WTO agreement. We simply have no other choice than to be true to our convictions. But from the bottom of my heart, I believe that we will have more tools to hasten the advent of democracy in China by forcing them to play by international economic rules. The last quarter century has seen real progress in China. Despite continued abuses, we are seeing the power of human exchange: through the entry of missionaries, through the growing numbers of Chinese being educated abroad, and now, through the internet. All these trends will only be advanced by China's admission to the WTO and playing by international economic rules.

• We simply cannot afford for China to follow the United States' pattern of development. Here, it has taken us decades to develop the technology, the will and the financial resources to clean up the environment. China's economic development has the potential to wreak untold economic and environmental havoc. Think of what would happen if China's 1.1 billion people used energy at our rate: we have 9 times their per capita energy use; 8 times the carbon emissions; 12 times the electricity use. Reaching these levels would be environmentally devastating, not only for China but for the world.

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We believe that the market can improve living conditions and change behavior here at home. We should offer the same choice for the Chinese.

Chairman ARCHER. Thank you, Congressman Blumenauer.

Our next witness is Congresswoman Nancy Pelosi, from California. Welcome. We will be happy to hear your comments.

STATEMENT OF HON. NANCY PELOSI, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF CALIFORNIA

Ms. PELOSI. Thank you very much, Mr. Chairman, for the opportunity to testify before the members of the committee today. Thank you all for the courtesies over these 10 years, when we have come in and had this conversation. Since we began the conversation in 1989, when the trade deficit for 1989 was $6 billion, as you know, it has grown in 1999 to $70 billion, over 1,000-percent increase in the trade deficit.

Our relationship, I believe, with any country, should make the trade fairer, the people freer and the world safer. Indeed, the current U.S.—China relationship has ignored three pillars of our foreign policy: promoting democratic values, stopping the proliferation of weapons of mass destruction and growing our economy by promoting U.S. exports abroad.

For the past 10 years, as you know, Mr. Chairman, the debate in Congress on U.S.—China policy has focused on these three areas of human rights, proliferation of weapons of mass destruction and trade. Advocates of unconditional most-favored nation status or NTR, as it is now called, have argued that economic reform would lead to political reform in China. Unfortunately, just the opposite is the case. While the Chinese Government negotiates bilateral trade agreements, it escalates a crackdown on peaceful activity in the area of religion, the Internet and on any organization perceived to be a threat to their rule. Of course, the brutal crackdown in Tibet also continues.

China continues to make the world a more dangerous place by its cooperation with Pakistan's missile program, its cooperation with Iran in the Persian Gulf and threatening the Middle East peace, and threats to the democracy in Taiwan.

But putting aside all of those concerns, let's put aside the concerns of the ongoing human rights violations and the continuing proliferation of weapons of mass destruction. Let's just look at this on a strictly trade-for-trade basis. I believe the decision to oppose permanent normal trade relations at this time is justified on trade concerns alone, for the following reason:

Again, when we started this debate 10 years ago, the trade deficit was $6 billion for 1989. I think that bears repeating; that it has now grown to almost $70 billion for 1999. China continues to violate our trade agreements, and we continue to reward them for it. The debate before us is of critical importance to our economy and the global trading system. Permanent NTR must not be rushed, and we must have a full and open debate on all aspects of this decision.

In light of China's pattern of violation of trade agreements and the rapidly increasing trade deficit, I believe the U.S. Congress should not give up its authority to review annually China's trade record at this time. Of course, it would be to renew annually, as well. We should wait to see if China takes the steps necessary, even the beginning steps. I know they can't implement the Bilateral immediately, even the initial steps to implement the bilateral agreement before we consider permanent NTR. The WTO Agreement with China will be phased in over 5 years, but we will give up our leverage if permanent NTR is passed now, before we have evidence that the agreement will be implemented.

My colleague said that this is of no risk to us. I think there are risks to our economy, and I would like to take a moment to elaborate on them. Let's stipulate to something, though; that there are three options before us. One is the status quo; China outside the WTO, not abiding by any rules and certainly not complying with any of our bilateral trade agreements with them. That is not good. We all agree. I mean, I hope we all agree that is not good. It seems to be acceptable, but I don't think it is good.

Secondly, we have the option of China, inside the WTO, complying. That would be better. That is what we all hope to have. But there is no reason for us to think, on the basis of China's performance of broken promises and broken trade agreements, that they will comply within the WTO.

So the third option is China, inside the WTO, not complying. China is already organizing against the U.S. with countries within the WTO against any conflicts, any disagreement we may have with them once they get in, and I am very concerned that once they get in, they will use their strength to block Taiwan from entering WTO. So I would hope that any consideration of WTO would almost be simultaneous for China and Taiwan.

But let's talk about the risks that some have not seen to our economy with China going into the WTO with no guarantees of their compliance. Already there is reason to be concerned that Chinese officials are backing away from the bilateral agreement.

For example, on wheat, the USTR fact sheet states, and I quote, that "China will establish large and increasing tariff rate quotas for wheat, with a substantial share reserved for private trade." But only a few days later, China's chief WTO negotiator stated that it is a complete misunderstanding to expect this grain to enter the country. Beijing only conceded a theoretical opportunity for the export of grain.

On insurance, the USTR fact sheet specifically states that China agrees to award licenses to U.S. insurance forms solely on the basis of prudential criteria, with no economic needs test or quantitative limits. But Ma Youngwei, chairman of China's Insurance Regulatory Commission, sees things differently. He states that even after accession to the WTO, Beijing reserved the right to block licenses for foreign insurance companies if their approval seemed to threaten stability of economic policy.

Any possible WTO Agreement must be viewed against the background of the Chinese Government not complying with agreements it has signed. China's compliance for a well-conceived, commercially acceptable and enforceable WTO Agreement would be an improvement over China's wholesale violation of international trade practices. However, with China's pattern of refusing to play by the rules, a WTO Agreement that is not realistic or enforceable, enforceable, will wreak havoc on the international trade regime.

As events leading up to Seattle and the administerial itself illustrate, the WTO is on shaky ground. Unless China's WTO's accession is done properly, it will further weaken the organization. Enforcement is key. There is little evidence that the Chinese Government will honor the commitment it makes in either bilateral or multilateral form. Examples of Chinese violations are as follows—

Chairman ARCHER. Ms. Pelosi, are you about to wind up your comments? You have exceeded the 5-minute rule by about 2.5 minutes. If you are about to conclude, the chair will be glad to have you do so. Otherwise the chair would like for you to put the balance of your comments into the record.

Ms. PELOSI. Mr. Chairman, I was just following the lead of Mr. Moran. And you were generous with the gavel then and the many more members in testifying on that side of the issue.

Chairman ARCHER. The other members did not exceed by more than one minute.

Ms. PELOSI. Not true. Mr. Chairman, then I will wrap up by saying, and I thank you, again, for your courtesy once again this year. China has violated the Market Access Agreement, the Intellectual Property Agreement, the Forced Labor Agreement, and we continue to reward them for that.

I will submit, heeding the admonition of the chairman, I will submit the rest of my statement for the record. In conclusion, though, I would say one sentence and that is I would like to submit legislation which says China can have permanent NTR once it takes the initial steps to implement our bilateral agreement. Once we give up permanent MFN, we have lost all leverage on China's trade behavior with the United States, and I am saying this just strictly on the basis of trade.

Once again, Mr. Chairman and members of the committee, thank you for your courtesy, for your time and your consideration of my remarks.

Thank you, Mr. Chairman.

[The prepared statement follows:]

Statement of the Hon. Nancy Pelosi, a Representative in Congress from the State of California

Our relationship with any country should make trade fairer, the world safer and people freer. Indeed, the current U.S.—China relationship has ignored three pillars of foreign policy—promoting democratic values, stopping the proliferation of weapons of mass destruction and growing our economy by promoting U.S. exports abroad.

For the past decade, the debate in Congress on U.S.—China policy has focused on human rights, proliferation and trade. Advocates of unconditional Most Favored Nation (MFN) status have argued that economic reform would lead to political reform in China. Unfortunately, just the opposite is the case. While the Chinese government negotiates bilateral trade agreements, it escalates a crackdown on peaceful activity in the areas of religion, the Internet and on any organization perceived to be a threat to their rule.

China continues to make the world a more dangerous place by its cooperation with Pakistan's missile program, cooperation with Iran and threats to the democracy in Taiwan. But putting aside concerns of ongoing human rights violations and the continued proliferation of weapons of mass destruction, I believe the decision to oppose permanent Normal Trade Relations (NTR) at this time is justified on trade concerns alone.

When we started this debate ten years ago the trade deficit was $6 billion for 1989. Now it has grown to almost $70 billion for 1999. China continues to violate our trade agreements and we continue to reward them for it.

The debate before us is of critical importance to our economy and the global trading system. Permanent NTR must not be rushed and we must have a full and open debate on all aspects of this decision. In light of China's pattern of violation of trade agreements and the rapidly increasing trade deficit, I believe that the U.S. Congress should not give up its authority to review annually China's trade record at this time.

We should wait to see if China takes steps to implement the bilateral agreement before we consider permanent NTR. The WTO agreement with China will be phased in over five years, but we will give up our leverage if permanent NTR is passed now, before we have evidence that the agreement will be implemented.

Already there is reason to be concerned that Chinese officials are backing away from the bilateral agreement. For example, on wheat, the *USTR Fact Sheet* states that "China will establish large and increasing tariff rate quotas for wheat . . . with a substantial share reserved for private trade." But, only a few days later, China's chief WTO negotiator stated that "it is a complete misunderstanding to expect this grain to enter the country . . . Beijing only conceded a theoretical opportunity for the export of grain." (*South China Morning Post*, January 7, 2000)

On insurance, the *USTR Fact Sheet* specifically states that "China agrees to award licenses [to U.S. insurance firms] solely on the basis of prudential criteria, with no economic needs test or quantitative limits." But Ma Yongwei, chairman of the China Insurance Regulatory Commission sees things differently. He states that "even after accession to the WTO, Beijing reserved the right to block licenses for foreign insurance companies if their approval seemed to threaten stability of economic policy." (*Financial Times*, November 19, 1999)

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China's compliance with a well-conceived, commercially acceptable and enforceable WTO agreement would be an improvement over China's wholesale violations of international trade practices. However, with China's pattern of refusing to play by the rules, a WTO agreement that is not realistic or enforceable will wreak havoc on the international trade regime.

As events leading up to the Seattle Ministerial and the Ministerial itself illustrate, the WTO is on shaky ground. Unless China's WTO accession is done properly, it will further weaken the organization. Enforcement is key.

There is little evidence that the Chinese government will honor the commitments it makes in either a bilateral or multilateral forum. Examples of China's trade violations are as follows:

Market Access

• Despite negotiating a 1992 MOU on market access, China has clearly violated the agreement by instituting non-tariff barriers, import/export licenses, import quotas, import substitution policies, and measures which prohibit imports of U.S. citrus, plums and wheat. (*1999 Trade Estimate Report on Foreign Trade Barriers*)

Intellectual Property

• China has been named three times under the "Special 301" trade law for failing to provide adequate protection of copyrights, patents and trade secrets.

• "Of particular concern is the significant level of unauthorized use of software by both private enterprises and government ministries." (*1999 Trade Estimate Report on Foreign Trade Barriers*)

Forced Labor

• In 1992 and 1994, China signed agreements that it would not export products of forced labor to the U.S. and would allow visits of U.S. officials to suspected sites.

• But, the *State Department's 1998 Report on Human Rights* specifically finds that: " In all cases [of forced labor identified by U.S. Customs], the [Chinese] Ministry of Justice refused the request, ignored it, or simply denied the allegations without further elaboration."

• *The Laogai Research Foundation* has also documented nearly 1,100 forced labor camps in China. In these camps there is no due process, no compensation for work, conditions are severe and physical punishment is rampant.

The Chinese government has a remarkably consistent record of violating its international commitments. Some argue that allowing China into the WTO will force them to play by the rules. The reality is that the Chinese government will not abide by their agreements if it is not in their interest to do so.

Even if we ignore China's continuing violation of human rights,

Even if we ignore China's ongoing proliferation of weapons of mass destruction,

On the basis of trade issues alone, Congress should not surrender its authority to review China's trade status. Congress should insist that China take steps to implement the bilateral agreement before permanent NTR is adopted. I am preparing legislation to that effect.

This decision is too important to our economic future to base it on a litany of broken promises instead of a record of performance.

Chairman ARCHER. Thank you, Congresswoman Pelosi.

The chair could be more lenient on time if we did not have so many witnesses and such a long day. So the chair will appreciate the cooperation of the witnesses to stay within the five minutes on their verbal presentation and submit their entire printed statement for the record.

Congressman Smith?

STATEMENT OF HON. CHRISTOPHER H. SMITH, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF NEW JERSEY

Mr. SMITH. Thank you very much, Mr. Chairman. I would like to ask, at the outset, that a letter from Harry Wu, who has spent years in the Laogai and recently wrote a very strong letter about the use of gulag labor be included in the record.

Chairman ARCHER. Without objection, so ordered.

Mr. SMITH. Thank you, Mr. Chairman. The proposal before the committee today is radically different from the MFN legislation we have considered in the past. This year, Congress is no longer being asked whether it objects to another one-year extension of MFN. Rather, we are considering whether we should sign away our right to ever object to MFN for the Beijing regime. We are being asked to surrender our discretion in the matter. We must resist that temptation.

We are all familiar with the history of the annual MFN review for China. Whether we like it or not, everyone has come to understand that China's annual MFN renewal is a safe bet, notwithstanding virtually any outrage perpetrated by the Chinese Government. A couple of years ago, the official name of MFN was even changed to normal trade relations to spare members of Congress from having to vote in broad daylight for a policy which still legally entitles Beijing to most favored status under our customs and trade laws. But even after this emergency cosmetic surgery, MFN or NTR is still such an embarrassment that many of its fondest supporters would prefer never to have to vote on it again.

Mr. Chairman, the possibility of MFN revocation, even if it is only a distant possibility, is critically important leverage that we must not surrender. At an appearance before my subcommittee shortly after his expulsion from China, former prisoner of conscience, Wei Jingsheng, a man who shed his blood on behalf of human rights and endured years of prison torture, explained the importance of the annual review to the status of human rights in China. He stated, and I quote, "The Chinese Communists will only tolerate anything as a result of pressure. Once the pressure has lifted, then there is no question any more of tolerance." He further explained that "in the view of the Chinese Communist authorities," the first and foremost area where the U.S. Government can exert real pressure is "in the field of trade."

Wei went on to explain the personal implications, the paradox of the trade linkage for prisoners of conscience in China, and he said, and I quote, "Generally speaking, when there is a worsening in the relationship between China and the United States or other Western countries, we tend to get a bit more protection inside the prisons. For example, when there was a turn for the better in China-American relationships, specifically when the United States declared its intention to establish the strategic collaborative partnership with China, immediately the prisoners were beaten and received other abuses. At the same time the Chinese Communists stepped up their purges, generally."

Mr. Wei's experience is not unique, and his analysis is confirmed by other testimony received by my Subcommittee on International Operations and Human Rights. For example, in October of 1997, a Uighur Muslim from Xinjiang Province testified that our annual MFN review even helps Chinese provincial authorities in that distant province decide whether to kill people or to let them live.

Speaking about the killing and arrests that followed demonstrations sparked by China's arrest of Muslim religious leaders during Ramadan she stated, "After the demonstration, we were a little surprised about the patience of the Chinese Government in making open executions. Everything was clear. They were waiting for the United States to offer most favored nation status to China. Right after the MFN was approved by Congress, the Chinese Government made the first open execution of seven Uighurs and sentenced 23 demonstrators ranging from 5 years to a lifetime."

Mr. Chairman, whether or not we agree with how this Administration has used trade leverage, and I do not, the meaning of this testimony is clear. The Beijing dictators change their conduct when they know they are being watched by people whose decisions may affect their wallets. This makes sense and is well understood even by those who argue for permanent MFN.

For example, when big business and the Clinton Administration really want to get China to respect international copyrights, what do they do? They threaten economic sanctions, the very same sanctions they say would be counterproductive as a means of promoting worker rights and politically religious freedom in China. On at least three occasions since 1991, the U.S. trade representative has threatened to impose billions of dollars in sanctions to vindicate U.S. intellectual property rights interests. In each of those cases, when faced with credible and imminent threat of economic sanctions, the Chinese Government changed its behavior.

I must reluctantly conclude that some business interests and U.S. officials understand full well that unilateral economic sanctions and the threat of such sanctions can and do work to change the conduct of the PRC Government. But they also know that sanctions may be subject to a law of diminishing returns. For example, if certain punitive tariff rates were already in effect because of egregious human rights violations, then it would be no longer useful to threaten the same punishment in order to vindicate intellectual property rights. Big business would prefer to conserve the limited resources of trade leverage for its own uses under the auspices of the WTO. In other words, the selective use of rhetoric about unilateral sanctions—demanding them to punish copyright violations, denouncing them when it comes to torture and forced abortion or religious persecution or abusive labor practices—appears to reflect an implicit prioritization of profits above fundamental human rights.

Mr. Chairman, the permanent surrender of our MFN leverage ought to be unthinkable at this point. Conditions in the PRC are probably the worst that they have been since the 1989 Tianamen Square massacre. The Chinese Government is at war with religious liberty. Around midnight just last Thursday, approximately 150 agents converged to arrest 80-year-old Catholic Archbishop John Yang Shudao of Fujian Province. Chinese prisons hold numerous other religious leaders ranging from the 10-year-old Panchen Lama to Protestant Church pastors.

Chinese authorities summarily execute Uighur prisoners in Xinjiang. They continue their brutal crackdown on the Falun Gong, a nonviolent, meditative spiritual practice which Beijing, right in the face of all of this, has vowed to "smash." According to recent estimates, over 5,000 Falun Gong practitioners have already been sent to labor camps and an additional 2,000 have been rounded up in the last week and a half alone.

The Communist Government of the PRC, Mr. Chairman, as we know, and my subcommittee has had more than 12 hearings on this, day-long hearings, where we look at the human rights abuses in China, they violate those rights on a massive scale. It does not allow political dissent, it harvests and sells the internal organs of executed prisoners, it forces women who have "unauthorized pregnancies," to abort their children and to submit to sterilization, and it continues to brutalize the indigenous peoples of Tibet and Xingjiang Province. And slave labor continues in the Laogai all throughout China.

Chairman ARCHER. Congressman Smith, are you about to conclude?

Mr. SMITH. I will conclude, Mr. Chairman. I have much more to say. But let me just say I would hope—

Chairman ARCHER. Well, you are 2 minutes over now.

Mr. SMITH. I would hope that we would preserve the right, minimally, every year to take a look at MFN, even if it is a foregone conclusion it is going to be approved. And to use that leverage to, at least on the margins, promote human rights in China. Otherwise we give it all up, and they will crack down as never before, as they are doing in the face of all of this light and scrutiny with the Falun Gong as we meet.

Thank you, Mr. Chairman.

[The prepared statement and attachment follow:]

Statement of the Hon. Christopher H. Smith, a Representative in Congress from the State of New Jersey

Thank you, Mr. Chairman. In addition to my prepared statement, I would ask the Committee's consent to insert in the record a brief letter from Harry Wu, the prominent Chinese-American human rights activist, on the subject of forced labor in China.

Mr. Chairman, a few months ago, I and some of our colleagues appeared before you to argue against another annual extension of Most Favored Nation status to the People's Republic of China. Today's hearing will touch on some of the same issues, Nevertheless, the proposal before the Committee today is radically different from the MFN legislation we have considered in the past.

This year, Congress is no longer being asked whether it objects to another one-year extension of MFN. Rather, we are considering whether we should sign away our right to object to MFN for the Beijing regime. We are being asked to surrender our discretion in the matter. We must resist that temptation.

We are all familiar with the history of the annual MFN review for China. Whether we like it or not, everyone has come to understand that China's annual MFN renewal is a safe bet, barring some unforeseen outrage by the Chinese government. A couple of years ago the official name of MFN was even changed to "normal trade relations," to spare Members of Congress from having to vote in broad daylight for a policy which still legally entitles Beijing to "most favored" status under our customs and trade laws. But even after this emergency cosmetic surgery, MFN or NTR is still such an embarrassment that many of its fondest supporters would prefer never to have to vote on it again.

Mr. Chairman, the possibility of MFN revocation—even if it is only a distant possibility—is critically important leverage that we must not surrender. At an appearance before my Subcommittee shortly after his expulsion from China, former prisoner of conscience Wei Jingsheng explained the importance of the annual review to the status of human rights in China. He stated: "[T]he Chinese Communists will only tolerate anything as a result of pressure. Once the pressure has lifted, then there is no question of any tolerance." He further explained that, "in the view of the Chinese Communist authorities," the first and foremost area where the U.S. Government can exert real pressure is "in the field of trade."

Wei went on to explain the personal implications of the trade linkage for prisoners of conscience in China:

Generally speaking, when there is a worsening in the relationship between China and the United States or other Western countries, we tend to get a bit more protection inside the prisons. For example, when there is a turn for the better in the Sino-American [relationship,] . . . specifically [in 1997] when the United States declared its intention to establish this strategic collaborative partnership with China, immediately the prisoners [were] beaten and received other abuses.. . . At the same time, the Chinese Communists stepped up [their] purges generally.

Mr. Wei's experience is not unique, and his analysis is confirmed by other testimony received by my Subcommittee. For example, in October 1997, a Uighur [WEE-grr] Muslim woman from Xinjiang Province testified that our annual MFN review even helps Chinese provincial authorities in that distant province decide whether to kill people or to let them live. Speaking about the killings and arrests that followed demonstrations sparked by China's arrest of Muslim religious leaders during Ramadan, she stated:

After the demonstration, we were a little surprised about the patience of the Chinese Government in making open executions. Everything was clear. They were waiting for the United States to offer Most Favored Nation status to China. Right after MFN was approved by the Congress, the Chinese Government made the first open execution of seven Uighurs, and sentenced 23 demonstrators [to terms] ranging from 5 years to lifetime.

Whether or not we agree with how this Administration has used trade leverage (and I do not), the meaning of this testimony is clear: The Beijing dictators change their conduct when they know they are being watched by people whose decisions may affect their wallets. This makes sense, and is well understood even by those who argue for permanent MFN. For example, when big business and the Clinton Administration really want to get China to respect international copyrights, what do they do? They threaten economic sanctions—the very same sanctions they say would be counterproductive as a means of promoting political and religious freedom in China. On at least three occasions since 1991, the U.S. Trade Representative has threatened to impose billions of dollars in sanctions to vindicate U.S. intellectual property interests. In each of those cases, when faced with the credible and imminent threat of economic sanctions, the Chinese government changed its behavior.

I must reluctantly conclude that some business interests and U.S. officials understand full well that unilateral economic sanctions (and the threat of such sanctions) can and do work to change the conduct of the PRC government. But they also know that sanctions may be subject to a law of diminishing returns. For example, if a certain punitive tariff rate were already in effect because of egregious human rights violations, then it would no longer be useful to threaten the same punishment in order to vindicate intellectual property rights. Big business would prefer to conserve the limited resource of trade leverage for its own uses, under the auspices of the WTO. In other words, the selective use of rhetoric about "unilateral sanctions"—demanding them to punish copyright violations, denouncing them when it comes to torture or forced abortion or religious persecution—appears to reflect an implicit prioritization of profits above fundamental human rights.

Mr. Chairman, the permanent surrender of our MFN leverage ought to be unthinkable at this point in time. Conditions in the PRC are probably the worst they have been since the 1989 Tiananmen Square massacre.

The Chinese Government is at war with religious liberty. Around midnight last Thursday, approximately 150 agents converged to arrest 80-year-old Catholic Archbishop John Yang Shudao of Fujian Province. Chinese prisons hold numerous other religious leaders, ranging from the 10-year-old Panchen Lama to Protestant house church pastors. Chinese authorities summarily execute Uighur Muslim prisoners in the Xinjiang region. They continue their brutal crackdown on Falun Gong, a nonviolent, meditative spiritual practice, which Beijing has vowed to "smash." According to recent estimates, over 5,000 Falun Gong practitioners have already been sent to labor camps, and an additional 2,000 have been rounded up in the last week and a half alone.

The Communist government of the PRC systematically violates other human rights on a massive scale. It does not allow significant political dissent. It harvests and sells the internal organs of executed prisoners. It forces women who have "unauthorized" pregnancies to abort their children and submit to sterilization. It continues to brutalize the indigenous peoples of Tibet and Xinjiang. It uses slave labor to manufacture products for export. According to the State Department, "[i]ndependent trade unions remain illegal within China."

Gaining permanent MFN from the United States has been one of Beijing's top priorities for several years. Regardless of whether permanent MFN is required as part of China's WTO accession package -and this assertion is vigorously disputed by some experts on international trade law—the United States of America must stand for more than the corporate bottom line. Over the past five years, the Clinton Administration has engaged in unparalleled appeasement of that Communist regime. Permanent MFN would make that appeasement nearly complete, surrendering one of our last important means (short of military force) to affect Beijing's conduct.

I urge you, my colleagues, to resist this surrender. At the very least, leave the United States Congress with the possibility of a vote every year—a real vote, with teeth. The Beijing dictators are not stupid. They understand the difference between window-dressing and real consequences. This is a time of crisis for freedom in China—political freedom, freedom of conscience, of religion, of the press, of assembly. A grant of permanent MFN now would send an unequivocal message to the Beijing regime: We do not really care. Although we speak many words about the importance of freedom and human rights, when it comes to our actions, American ideals are not worth nearly so much as corporate profits and feel-good diplomacy.

I believe that we do still care, and I hope that our decisions in the coming weeks will reflect a continuing commitment to the promotion of democracy and the protection of fundamental human rights in China. Thank you, Mr. Chairman.

The
Laogai
Research Foundation
勞改基金會

February 14, 2000

Sent to:
Thomas Donahue, President, US Chamber of Commerce
Cal Cohen, President, Emergency Committee on American Trade
Sam Maury, President, Business Round Table
Bob Kapp, President, US-China Business Council

Dear Sirs;

I am writing to you in your capacity as one of the presidents of the principle organizations of the Business Coalition for US-China Trade. I read with dismay the material posted on your website concerning Chinese prison labor imports. It is my hope that what unfortunately reads like an apology for the use of forced labor in China is a product of ignorance and not greed, given the $12 million corporate lobbying campaign to grant China permanent NTR.

The issue of Chinese forced labor products is egregious and it is real. Contrary to your website's implication that the risk of fines, criminal prosecution, and adverse publicity is an effective deterrent to commercial transactions bottomed on the use of forced labor, the Dun & Bradstreet Directory of Key Manufacturing Companies in the People's Republic of China includes 99 known forced labor camp industries with total sales of over $800 million. These comprise only a portion of the over 1000 known forced labor camps in China. There are documented cases of forced labor industries exporting the to the United States directly or through an import-export company. Moreover, often so-called "legitimate" Chinese companies will sub-contract a portion of the production process to a forced labor camp. Various human rights organizations and forced labor camp survivors have documented numerous cases of this type of business, including the assembly of binder clips and artificial flowers in "reeducation through labor" camps, the mining of graphite at a forced labor mine, and the manufacturing of chain hoists at a forced labor industrial factory.

Your website presents a disturbingly one-sided view of Chinese compliance with the existing US-China bilateral agreements on forced labor. For example, you distort the State Department's 1998 Report on Human Rights. You cite the State Department report as noting that the "Chinese government took steps towards transparency in the prison system, allowing inspections by the UN Working Group on Arbitrary Detention and UNHCHR Robinson," yet this is not the section of the State Department report that speaks to the issue of forced labor production. You neglect China's fundamental policy, as noted in the State Department report that "China does not permit independent monitoring of prisons and reeducation-through-labor camps." You also fail to mention that a third prison visit, by European Union officials, led to the beatings and deaths of several prisoners, and that protests occurring during the UN Working Group visit resulted in sentence extensions for prisoners protesting harsh prison conditions. None of the visits you noted had anything to do with suspected forced labor production.

The section of the State Department report relevant to the forced labor issue explicitly states "In all cases [of forced labor identified by US Customs], the [Chinese] Ministry of Justice refused the request, ignored it, or simply denied the allegations without further elaboration." As early as 1996, the Customs Service was already admitting that the implementation procedures for the MOU and SOC were "irretrievably broken." Contrary to your statements that allegations of forced labor product importation can be dealt with under existing US laws, the MOU and SOC have both proven inadequate. As such, there is currently no way to ensure that the products entering the US market are not produced in whole or in part by prisoners in China.

You also state on your website that I "claim" to have secretly videotaped businesses making deals for prison labor product goods to enter the US market indirectly. In fact, one of these episodes was aired on "60 Minutes" in 1991, at a time when the Chinese government was already claiming that it did not export forced labor products to the United States. During the transaction, agents of the Hong Kong distribution company representing the forced labor camp assured that if products fell below quality standards, "the prisoners would be beaten." I will gladly provide you with a copy of this tape.

Finally, the parallel you create between the US prison system and the Chinese forced labor camp system--known as the Laogai--by noting that the US also operates prison industries is preposterous. China is not a nation of the rule of law, and the Laogai is not a simple prison system. In addition to the prisoners officially charged with "counterrevolutionary crimes," Laogai camps are also populated with Catholic priests, practitioners of Falungong, democracy and labor activists...etc., who are charged with "illegal assembly," "belonging to an unapproved organization," "hooliganism," or "revealing state secrets." These brave people, as well as common criminals who also deserve certain protections, are the ones manufacturing the forced labor produced goods.

I sincerely hope that you would consider retracting the information you have posted on your website, and take the time to get a more accurate picture of the forced labor issue. Pursuing business with the Chinese government need not be tantamount to disseminating their propaganda in this country.

Sincerely, Harry Wu

Harry Wu
Executive Director, Laogai Research Foundation

Chairman ARCHER. The chair would like to conclude with this panel of our colleagues before we go vote, and then excuse them so that they do not have to come back and interfere with the rest of their days. And when we do return, Special Trade Representative Barshefsky, will be our witness.

Our last witness on this panel is Congressman Cal Dooley. Welcome. We would be pleased to hear your comments.

STATEMENT OF HON. CALVIN M. DOOLEY, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF CALIFORNIA

Mr. DOOLEY. Thank you, Chairman Archer, and thank you, members of the committee, and I will not take my entire 5 minutes.

What I would like to say, first off, is to commend Ambassador Barshefsky for the terrific job she did in negotiating an agreement that was going to provide tremendous benefits to the all of the working men and women in businesses of the United States. And I think we see the tremendous opportunity that we have when we look at the growth in the trade between the United States just over the past 10 years or so, when we have seen it grow from about $5 billion to over $7 billion. And really what the issue we are facing today is, is are we going to ratify an agreement that, by passing permanent normal trade relationships with China, that is going to allow U.S. workers and businesses to benefit.

Ms. Pelosi made a comment that we have a serious concern with a trade deficit of $70 billion. I would agree with that. But I also feel very, very strongly that if we do not pass permanent normal trade relations, it is U.S. workers and U.S. companies that are going to be benefitting by these significant reductions in tariffs, whether it is a reduction in wheat tariffs from 40 percent to 12 percent, whether it is a reduction in auto tariffs from 100 percent down to about 20 percent, I believe it is, and if you are worried about a trade deficit, if you have only U.S. companies that cannot benefit with the agreement that Ms. Barshefsky has negotiated, and you have Canada, you have the European Union, and the companies are located there that can benefit by that, I can guarantee you that it is not going to be the wheat growers in Oregon or my district that are going to be selling and exporting wheat to China, it is going to be Canadian wheat growers, it is going to be Australian wheat growers, it is going to be Argentine wheat growers. And if you don't think that is going to have an adverse impact on the trade deficit, I do not know what will.

I would also like to point out, when we look at the issue in terms of how we can benefit even the human rights in the advancement of democracy, I would even point out, just on the issue in terms of what we have seen in the growth in Internet use in China in the last year. In 1998, we had 5 million Internet connections in China. Today we have 10 million. The Internet is the greatest force and power for the advancement of democracy than any tool we have seen in the history of mankind. There is no way that China's Government can control the content on the Internet. And by having an increased U.S. investment in China, by ensuring that it is U.S.—based technology that is going into China, we are going to be doing more to advance democracy there than the alternative, which is, one, by trying to keep the U.S. more isolated from China.

I would also like to just touch on the issue of compliance. And, again, there was a reference made to a statement by a Chinese official of dealing with wheat. I would point out that every major agricultural organization, including the National Wheat Growers Association, is supporting this agreement because they have confidence that this agreement is going to ensure that we are going to have increased access to these markets.

And when we talk about the leverage of the United States, the United States might have had leverage 10 or 20 years ago, but this is a different world today. The United States is not the sole economic power in the world. And if we think that we, alone, can leverage a change in behavior of China, we are deluded. By allowing China to come into the WTO, what we are ensuring is that it is not going to be the United States trying to leverage compliance in China, it is going to be 140 nations that comprise over 95 percent of the industrial GDP in the world, 95 percent of the World Trade Organization are going to be our partners in ensuing compliance in China. This is a great deal, and we would be doing a disservice to U.S. workers and U.S. businesses if we left them on the outside, not having the ability to benefit from the significant tariff reductions that this Administration has negotiated.

Thank you.

[The prepared statement follows:]

Statement of the Hon. Calvin M. Dooley, a Representative in Congress from the State of California

Chairman Archer, Ranking-Member Rangel, and members of the committee, thank you for allowing me to testify today on the very timely issue of U.S.—China Relations and the possible accession of China into the World Trade Organization (WTO.)

First, I would like to commend U.S. Trade Representative Barshefsky and her negotiating team for reaching this historic bilateral trade agreement with China, and paving the way for China's accession into the WTO. The agreement is the culmination of 13 years of negotiations to open up the Chinese economy, and is stronger and more comprehensive than the set of commitments China made last Spring.

Since the reestablishment of diplomatic relations with China in 1979, total trade between our two nations has increased from $4.8 billion in 1980 to $75.4 billion in 1997. This makes China our fourth largest trading partner. China's economy is growing at an average rate of almost 10 percent a year, making it one of the fastest growing economies in the world.

Under the WTO accession agreement, China has agreed to dramatically lower tariffs, eliminate agricultural and industrial export subsidies and quotas, and permit American service exports in sectors including banking, insurance and telecommunications. These tariff reductions and service access provisions provide the U.S. with unlimited possibilities to grow and improve our standard of living. Furthermore, it is important to remember that in the course of negotiations, China agreed to *one-way* market opening concessions. The United States, on the other hand, made no concessions other than to bring China under the rules-based system of the WTO.

My district in central California is the largest agricultural district in the nation, and the benefits and opportunities created by this agreement are not lost on my constituents. It is projected that by the year 2003, 37 percent of the world food demand will come from China. American ranchers and farmers are the most efficient and competitive in the world. The bilateral agreement would move to level the playing field and allow U.S. agriculture tremendous access to the world's largest agricultural market.

Under the terms of the agreement, high Chinese tariffs on nearly all agriculture products would be reduced substantially over the next four years. On beef we would see tariffs reduced from 45 percent to 12 percent, on citrus from 40 percent to 12 percent and on wine from 65 percent to 20 percent. In fact, the deal would reduce tariffs for agricultural products to levels below those of most American trading partners. Furthermore, the agreement on the table would eliminate China's export subsidies for agricultural products including cotton, rice and corn, which will allow U.S. farmers to compete on a more level playing field and enhance U.S. efforts to curb European export subsidies.

In addition to the very tangible benefits this agreement offers to U.S. farmers, it is also a key component to continuing our nation's longest economic expansion—an economic expansion that has raised the standard of living for working Americans across the country. The technology sector has been a driving force behind this period of unprecedented economic growth, and the China WTO accession agreement will give U.S. telecommunications, software and Internet companies access to China's 1.2 billion people.

China is currently the sixth largest computer market and the fourth largest computer chip market. It is expected to become the number two market, after the United States, in the very near future. Providing the U.S. high-tech sector with access to this enormous, and largely untapped market, will help to generate the fuel for continued economic growth and opportunity for American workers and their families.

Expanding access to technology and the Internet is important to the U.S. economy, but it is also key to promoting personal freedoms in China. In 1998, five million Chinese citizens had access to the Internet. In just one year that number has doubled with ten million Chinese citizens now enjoying access to the World Wide Web. While the growth in Internet use certainly represents economic opportunity for U.S. technology firms and the U.S. economy as a whole, it also represents more than that. It provides the people of China with unprecedented access to limitless information, and is a tremendous tool helping to move the Chinese toward greater personal and economic freedoms.

Without a doubt, the WTO agreement would certainly present tremendous opportunities for U.S. workers and businesses. But bringing China into the WTO is more than just a matter of market share. China's accession into the WTO would lock China into a rules-based international organization and bring them into the legal framework of the international community through the WTO. In addition to tariff reductions and other market access agreements, bringing China under the umbrella of the WTO would make China accountable for its trade practices and subject to WTO enforcement actions.

The historic agreement is a classic win-win for the United States, creating unlimited possibilities for American businesses and workers and providing the fuel for a continued economic expansion that has allowed American families to improve their standard of living and quality of life. In addition to expanding market opportunities, bringing China into the WTO will mean that they play by the same "rules of the road" as our other trading partners.

At this critical juncture, we would be foolish to abandon the opportunity to enhance our economic and political relationship with China, and with it, our ability to influence their economic, political, and humanitarian policies in the future. We cannot afford to embrace a Cold War mentality that would demonize and isolate China. A policy of economic and political engagement is the surest way to promote U.S. interests in China, to advance democracy and human rights within China, and to enhance future economic opportunities for U.S. workers and businesses.

I look forward to working with my colleagues on the committee and with the Administration to advance this important policy.

Chairman ARCHER. Thank you, Congressman Dooley. And the chair is grateful to all of the panelists. We appreciate your input, and the committee will now stand in recess for members to go vote. We will return as soon as possible, and at that time we will have as our witness Special Trade Representative Charlene Barshefsky.

[Recess.]

Chairman ARCHER. The committee will come to order. The chair asks that guests and staff be seated as quickly as possible. We are going to have a long day, and the chair will, to the greatest degree possible, expedite the hearing. Prior to the testimony of Trade Representative Barshefsky, we had suspended the opening statements, and the chair will make an opening statement at this point and the minority will make their opening statement, and then, without objection, all members will be entitled to insert written statements in the record.

I intend to yield, for part of my statement, to the chairman of the Trade Subcommittee, Mr. Crane, and I assume the same thing will happen on the Democrats' side.

Mr. LEVIN. Yes.

Chairman ARCHER. Last year, the U.S. concluded trade negotiations with China, and I congratulate our Trade Representative, Ambassador Barshefsky and her deputy, Richard Fisher, for their skill and their tenacity in these negotiations. Today, Congress continues its very careful review of that agreement to make sure that it helps American farmers, workers, and consumers.

From what I have seen, it certainly does. In fact, the new study says that in the area of agriculture alone, trade with China will increase U.S. farm exports by over $2 billion a year, nearly tripling the current pace. And last year, trade with China directly supported over 200,000 jobs in the U.S., each paying an average of 17 percent higher wages than jobs for our domestic market.

Lowering China's trade barriers further will create more jobs, more farm exports, and more economic growth for the U.S., and as we heard earlier from some of our witnesses, while at the same time not giving up anything with our tariffs or our non-tariff barriers. The benefit of international trade is simple. If we sell more American crops, computers, and cars to the world, Americans get better jobs, make more money, and enjoy a higher quality of life.

Trade with China also means more choices and lower prices for American consumers, which especially helps lower-and moderate-income families live within their budgets. That is often overlooked. Once the American people and Congress have reviewed this agreement to make sure it's good for America, the U.S. should continue normal trade relations with China on a permanent basis, and let's be clear what normal trade relations really means.

Only a handful of rogue nations do not receive this normal status, and those nations are Iran, Iraq, Libya, Afghanistan, Laos, North Korea, Cuba, and Serbia-Montenegro. Although China's movement toward American ideals of freedom and democracy may have been sluggish in the past, they have made slow progress, and I can testify to that, because I first went to China in 1977, and the China of today is very, very different than it was in 1977, very different than it was 10 years ago.

Rejecting this agreement and denying normal trade relations would mean severing ties that would take generations to repair. Trade has advanced China's economic reforms and trade will help us advance America's most treasured export, and that is individual liberty.

In summary, extending permanent normal trade relations to China is good for America, because China will enter the WTO with or without us. Contrary to a number of articles that have been printed in the media, Congress has no role to play in voting on whether or not China enters the WTO. They will enter with or without us. The only issue is will we be able to take advantage of the concessions that Ambassador Barshefsky has negotiated while giving up nothing on our side.

This is perhaps, I think, the most important issue involved in all of these deliberations, because if we do not take advantage of this unlimited opportunity, certainly Germany, Japan, France, and our other economic competitors will, and then our trade deficit will get bigger instead of smaller. Once more, America only stands to gain from this agreement, because U.S. tariffs, trade laws, and other safeguards were kept totally in place. All of the concessions were from the Chinese.

In effect, the Chinese, economically, unilaterally disarmed, and that is exceedingly important. Unlike all other types of trade negotiations, whether it be the Uruguay Round, whether it be NAFTA, or whether it be the Canadian Free Trade Agreement, where we are expected to give up something in order to get something from the other side, in this agreement, we gave up nothing. How can it be anything other than a win-win for the United States of America? So I look forward to working with President Clinton, Vice President Gore, and members of both parties on a bipartisan basis to move forward with normal trade with China, and I yield to the Chairman of the Trade Subcommittee for any comments he would like to make.

Mr. CRANE. Thank you, Mr. Chairman, and I will only add that Ambassador Barshefsky has brought home a terrific agreement. In fact, it will go down in the history books as one of the most significant trade agreements reached in the span of recorded history, and that in spite of the fact that the President directed her to negotiate the deal twice, once in April, then again in November, in the midst of preparations for the Seattle WTO meeting.

The fact that she could put the pieces back together again after the White House sent Zhu Rongji home empty-handed in April is a tribute to her skill. At the same time, it reflects the fact that reformist elements of the Chinese government are strong and they are resolved to turn China in the direction of free market reform. A deal that is as good for workers in downtown Chicago as it is for peasant farmers in Xiangdu is a compact that will bring this planet closer together in the common pursuit of expanding commerce and lifetime economic opportunities.

As we will see today and as the CRS report shows, this is a deal that sells itself in every area. In one sector after another, there is no question that United States workers and Chinese citizens will be better off if Congress passes permanent normal trade relations and puts these unilateral concessions in place. In exchange for steep tariff reductions and wholesale reforms of the Chinese trading system, the United States gives up nothing.

As the chairman mentioned before, let me stress that, the United States gives up nothing. All the concessions are one-sided, and they are from the Chinese. I urge the administration and China to tie up the multilateral aspects of this important negotiation as soon as possible. There are areas, such as fertilizer produced in my district, where we need further progress so that the concessions that were advertised truly result in real market access. At that point, I am committed to working with the President to achieve permanent normal trade relations for China, and I thank the chairman for yielding.

Chairman ARCHER. And I yield to the gentleman from New York for any statement he might like to make on the part of the minority and expect that he will yield to the ranking member of the Trade Subcommittee, Mr. Levin.

Mr. RANGEL. Thank you, Mr. Chairman. First, let me thank Ambassador Barshefsky for the outstanding job that you have done for our President and our country in reaching this historic agreement with China. It certainly opens up substantial new opportunities for farmers and business people and workers in the United States. I was listening to the complimentary statements by my Chairman and how this trade would do so much for the United States. It is just hard for me to see how the Communists in Cuba could be such a threat to our national security and 1.1 billion Communists in China would be great for our American way of life, but I guess that is the politics that is involved with Cuba, and too, to some extent, the politics that is involved in permanent normal relationships with China.

I am very concerned about the timetable and a variety of other things that I am certain that you and other witnesses will be able to shed a lot more light on, but, as indicated by the Chair, I would like to yield the balance of my time to the ranking member of the Trade Subcommittee, Mr. Levin.

Mr. LEVIN. Thank you, Mr. Rangel and to the chairman of the full committee and the Trade Subcommittee, and welcome, Ambassador. The question before the committee today, as I see it, is not whether we should stand in the way of globalization or blindly embrace it. As the President stated in his, I think, brilliant speech to the Davos World Economic Forum, and I quote, "Those who wish to roll back the forces of globalization because they fear its disruptive consequences I believe are plainly wrong. Those who believe globalization is only about market economics, however, are wrong, too," end of quote.

So, the question before the committee is whether we will become active participants in an effort to shape globalization so that it raises living standards and maximizes opportunities for all Americans. China's potential accession to the WTO challenges us to demonstrate our commitment to the principle of active internationalism.

Because of its unique size and economic and political structures far different from the model on which WTO is based, China's potential accession to the WTO presents unique opportunities and challenges. The agreement negotiated with China would open to the U.S. one of the fastest growing markets for American goods and American services. It would draw China, with its very weak rule of law, into an international rules-based system, but it's clearly not that simple.

China is the world's largest state-controlled economy, where free markets and the rule of law are still in the rudimentary stages of development. During the recent 10 days in Beijing and Hong Kong, I saw graphically that change in China is irreversible, but its direction is not inevitable. There is certainly more economic freedom, and the Chairman mentioned this, than 20 years ago. The Chinese leaders still describe their course as market socialism.

There is more political freedom than 20 years ago, but there remains, as we have seen, tight one-party control. The President got it right, in my judgment, in his State of the Union Address, when he said, and again I quote, "We need to know we did everything we possible could to maximize the chance that China will choose the right future."

This means, as I see it, we must do more than just say no, which is basically a passive policy, but it also means we must do more than just say yes, an equally passive approach. Neither will work as an American policy, just standing in the way or just looking the other way. The challenge, I realize, is to propose specifics, a plan of action to help to impact the direction in which China moves as it integrates into the world trading system.

First, we should establish a special U.S. congressional executive commission on China. This commission would maintain pressure on China to improve its record in a number of vital areas, including human rights, compliance with core labor standards, and development of the rule of law. One model is the so-called Helsinki Commission.

Such a China commission would place a permanent spotlight on China. It would have a staff and a budget devoted exclusively to monitoring China. Commission staff could investigate allegations of human rights abuses, non-compliance with WTO commitments or violations of core labor standards. It could also serve as a formal channel of communication between the U.S. government and non-governmental organizations monitoring China. The Commission would be required to report to Congress annually, presenting specific recommendations for action by the Administration and Congress.

Second, we should seek, within the WTO, an annual review of China's compliance with its WTO commitments. It would be done through the WTO's trade policy review mechanism, the TPRM. That board examines the policies and practices of member countries based on reports provided by the members themselves and analysis by the WTO Secretariat.

Currently, the most frequent review is every 2 years for the U.S., the European Union, Japan and Canada. Special scrutiny through an annual review is warranted in China's case due to the size of its economy and the evolving, indeed, rudimentary nature of its free market and rule of law.

Third, the Congress, in order to enhance enforcement of China's commitments, should put into legislation procedures for invoking the special anti-import surge provisions of the U.S.—China bilateral agreement, provisions that a number have strongly favored that were not, by the way, in the April document and which I think are an important step forward. We should take that opportunity to strengthen, consistent with WTO rules, the general anti-import surge provisions in U.S. law, Section 201, and the market-opening provisions in Section 301. Further, we should commit resources to commerce in USTR for the express purpose of monitoring and enforcing China's compliance with its WTO obligations.

Fourth, the U.S. must be committed to pursuing the establishment of a working group on labor within the WTO. China's potential accession to the WTO makes it all the more important that we begin to incorporate labor market issues into trade policy-making. As China becomes increasingly integrated into the world trading system, its lack of a free labor market will have a growing impact on competition with producers and workers in other countries, including the U.S. We can take, immediately, several steps to implement labor market issues in trade policy; for example, Section 307, that prohibits importation of goods made from forced or prison labor.

Fifth, as we press China to become more open with the WTO, the U.S. must lay out, must map out, how it will pursue institutional reforms of the WTO to make its operation more consistent with the principle of openness and rule of law, including prompt release of documents, open meetings and acceptance of amicus briefs. That was raised in Seattle. We hit some stone walls, and we need to lay out how we are going to proceed.

In recent decades, and I conclude on this, discussion of trade issues has been beset by intense polarization. In the 1980s, efforts in our Nation to open markets of other industrialized nations, particularly for our manufactured goods into the Japanese market, were often labeled "protectionism." In recent years, the trade debate has increasingly revolved around how a developed economy, such as ours, should react to growing trade and competition with evolving economies with different, indeed, very different economic structures. It has raised new issues, including the role in trade of core labor and environmental standards. Some have dismissed what are essentially economic concerns, such as core labor and environmental standards as "social issues" or reinvoked the cry of "protectionism." But this time, some others have parried by taking a leaf out of the polarization play book, in vain, against "the evils of globalization." The view is too often that issues are simple; either yes, no, either/or, for or against. The issues involved in China WTO are too important for such polarization. We can do better. Surely it is worth the effort.

Thank you, Mr. Chairman.

[The opening statement of Hon. Jim Ramstad follows:]

Statement of Hon. Jim Ramstad, a Representative of Congress from the State of Minnesota

Mr. Chairman, thank you for calling this important hearing today to discuss the recently negotiated U.S.—China bilateral trade agreement and China's accession into the World Trade Organization.

For the past few years, trade—especially trade with China—has come under heightened scrutiny. As a strong supporter of free trade, I am asked to defend my pro-trade stance. Today, however, I would like to turn the question back to the naysayers and ask them to defend their recalcitrant position. What does the status quo get you? How does saying 'NO' to an aggressive, forward-looking agreement with China resolve concerns they may have over worker rights, religious freedoms, environmental protection or fair trade?

If we basically repudiate the Chinese, how will we ever influence the Chinese to respect worker rights and religious freedoms? Turning away from this agreement will lead to a deterioration in our bilateral relationship, and if we aren't talking, how do we lead by example and show them the benefits of our policies and employment practices? If U.S. missionaries and family relief volunteers are kicked out of China, how will we further the causes of religious and family freedoms?

The WTO ensures that trade is based on the rule of law and advances American values of non-discrimination, due process, fair play, transparency and openness. It resolves trade disputes between countries with fairness and impartiality. It locks in and further reduces trade barriers to U.S. exports and fosters economic cooperation and stability among nations. So, how will *prohibiting* the U.S. from enjoying the advantages of a China under the multilateral, legal and rule-based structure of the WTO, and the tariff-reducing benefits that accompany it, help workers in the U.S.? How will it help consumers?

How will the status quo help the environment? By eliminating tariffs and other barriers to trade in environmental goods and services—such as clean coal technology, waste-water treatment and pollution monitoring equipment—we ease the task of providing people with clean air, clean water and improved public health. By reducing trade barriers in efficient energy technologies, nations can produce more power with less emission of greenhouse gases. By disciplining trade-distorting subsidies that can harm the environment, we can move toward sustainable management of natural resources. Would they have us forego these potential environmental improvements?

Mr. Chairman, I worry not only about *not* moving forward; I also worry about actually moving *backward*, losing ground in the global marketplace. We need progress, not regress. I look forward to learning more from today's witnesses on how we achieve real progress for American workers and consumers.

Chairman ARCHER. Ambassador Barshefsky, welcome to the Ways and Means Committee. And, again, my personal congratulations on not just this agreement, but the continual work that you do.

Ambassador BARSHEFSKY. Thank you very much, Mr. Chairman.

Chairman ARCHER. In an outstanding, professional way. And the committee looks forward to hearing your testimony, and when you are ready, you may proceed.

STATEMENT OF HON. CHARLENE BARSHEFSKY, OFFICE OF UNITED STATES TRADE REPRESENTATIVE

Ambassador BARSHEFSKY. Thank you, Mr. Chairman. It is a great pleasure to be here. I look forward to testifying on China's accession. May I ask that my full statement be incorporated into the record.

Chairman ARCHER. Without objection.

Ambassador BARSHEFSKY. Mr. Chairman and members of the committee, Mr. Rangel, my written testimony lays out in detail the reasons China's accession to the WTO, coupled with the approval of permanent normal trade relations status, is so vitally important to America's economic and strategic interests and our ability to promote our values. Let me just simply summarize the main points.

In China, we deal with the world's largest nation, the world's fastest growing major economy over the past decade and a country whose future course is central to our interest in a peaceful, stable and prosperous Pacific Region. And as we address these issues, we also deal with a Government that is often repressive at home and with which we have significant policy disagreements. This is, therefore, not a simple relationship, and in it, we must take up a vast range of issues, from broad strategic interests to regional security issues in Korea, and Southeast Asia and elsewhere, human rights and religious freedom, environmental protection, weapons proliferation, labor rights, international crime and narcotics trafficking and other issues as well.

When we disagree in these areas, we must be firm in the defense of America's interests and values. That is true in security, human rights and elsewhere. But at the same time, we must also be aware of the profound importance of our relationship with China to peace and stability across most of the rest of the world. And, thus, we have a profound responsibility to find and act upon areas of mutual interest and benefit to support reform in China, advance our own national interests and build a stable peace.

China's WTO accession is a case in point. Most directly, it will address our full range of trade concerns. It will do so through, as the chairman and others have pointed out, a series of one-way trade concessions in which China opens its markets across the broad spectrum of goods, services and agricultural products in a way unprecedented since the 1940s, strengthen our guarantees of fair trade and subject its decision to impartial dispute settlement. In doing so, this agreement will help to rectify a fundamentally imbalanced trade relationship. And if China does this, we simply maintain our current market access policies by making the normal trade relations we have granted China in every year for the last 20 permanent.

WTO accession will also, however, complement and support longstanding American humanitarian and strategic goals. It is in America's strategic interest to have Congress approve permanent NTR for China. WTO accession will integrate China more firmly in the Pacific and in the global economy. It will give China a stronger stake in the region's stability and prosperity, helping ensure that throughout the region, China plays the kind of constructive role it has in North Korea and during the Asian financial crisis. Together with our military presence and our alliance with Asia-Pacific democracies, China's accession will be a factor in favor of a more stable regional peace in the years to come.

And their accession and PNTR is in the interests of reform and liberalization in China. China's commitments in the WTO will open economic freedoms for Chinese citizens and promote the rule of law in many fields now dominated by State power and control. They go well beyond China's economic reforms to date, and certainly well beyond the reform policies dating to the earliest years of the Communist era. As it joins the WTO, for the first time since the 1940s, China will permit foreigners and Chinese firms to import freely into China, reduce and, in some cases, remove entirely State control over internal distribution of goods in the provision of services, enable foreign businesses to participate directly in information industries, such as telecom, including the Internet, and subject its decisions in all areas covered by the WTO to impartial dispute settlement, including retaliation, where that is appropriate.

Of course, this agreement is not a human rights policy in and of itself. Change in China will only come through a combination of internal pressure and external validation of those who struggle for political voice. That is why we are once again sponsoring a resolution in the U.N. condemning China's human rights record and why we have sanctioned China as a country of particular concern under the International Religious Freedom Act. But this agreement does represent a remarkable victory for economic reformers within China and for our own efforts to give the Chinese people more control over their own destiny and more ability to meet and exchange ideas with the outside world. And, thus, a number of leading Chinese and Hong Kong advocates of democracy endorse WTO membership and PNTR, not only for its economic value, but as a foundation for broader future reform.

Let me take a moment, if I may, and turn to the specifics of the agreement. To begin with, the bilateral WTO accession agreement with China is comprehensive. It covers a full range of industrial goods, services, farm products, unfair trade practices, and it addresses the barriers that block American exports. Let me give you a few examples: China will cut industrial tariffs from an average of almost 25 percent to 9 percent by 2005; it will eliminate all quotas in discriminatory taxes; it will cut tariffs on information technology-related products to zero; it will participate in APEC's other zero-for-zero initiatives on tariffs, as those are approved by the WTO; it cuts tariffs on autos from the current rate of 80 to 100 percent to 25 percent and, of course, across a broad spectrum of industries. Of equal importance, it will address other barriers which have traditionally prevented us from exporting to China; most notably, restrictions on trading rights and distribution.

With respect to trading rights, China will grant American companies rights to import and export most products without Chinese middle men. The right to engage in trade is now strictly limited. Only companies with specific authorization or which import goods to be used in production in China have such rights. This has always limited our ability to export to China, and this will now be corrected under this agreement.

As in the case of trading rights, the right to distribute our products is critical to our ability to export to China and compete in China. This is one of the great lessons of our trade with Japan. Distribution rights are absolutely essential. At present, China generally prohibits companies from distributing imported products or providing related services, like repair or maintenance or after-sales service. After accession, China will allow American firms to market wholesale, retail, repair and transport their products, whether produced in China or imported from the United States. China will permit enterprises to engage in the full range of distribution services over a 3-year phase-in for virtually all products.

In agriculture, on U.S. priority products, whether beef or citrus or others, tariffs will drop to 14 percent by 2004. The global average is 50. To cite a few examples: China will cut tariffs on beef from 45 percent to 12; almonds, cherries, peaches, other specialty crops from 30 to 12; wine from 65 to 20. China will also expand access for bulk agricultural products like wheat, corn, cotton, rice, soybean oil and others, through a system of tariff rate quotas that offer dramatic opportunities to producers of these products. And for the first time, China will permit private trade in these products. This is very significant. We will no longer be subject solely to State control over the importation and distribution of these products.

China will also end all import bands, cap and reduce trade- distorting domestic supports, eliminate export subsidies and abide by the WTO Agreement on sanitary and phytosanitary standards; meaning, science as a basis for agricultural and food safety decisions.

In services, China will open its markets for distribution; as I have said, telecom, financial services, professional services, business and computer services, insurance, motion pictures, environmental services, accounting, law, architecture, construction, travel, tourism and a range of other service sectors. In fields like distribution, telecom, financial services and several others, this represents the first direct foreign participation in these sectors since the 1950s. And the agreement strengthens the protection of American workers and businesses against unfair trade practices, import surges and investment practices that are intended to draw jobs and technology to China.

So the agreement addresses State enterprise policies, forced technology transfer, local content, offsets, export performance requirements. It provides for a 12-year special product safeguard to address market-disrupting import surges from China. It allows for 15 years continued use of our nonmarket economy dumping methodology; that is to say, strengthening our anti-dumping law. In short, this agreement is absolutely comprehensive.

Second, the results of the agreement will be rapid. Immediately on accession, China will begin opening its market in virtually every area. The phase-in of further concessions will be limited to 5 years in almost all cases, and in many cases, 1 to 3 years.

Finally, the agreement is fully enforceable. And let me, if I may, take a moment on this point. All trade commitments require full implementation and enforcement to be meaningful in practice. Our previous experience with China in improving intellectual property rights and enforcing textile commitments demonstrate how critical constant oversight, monitoring and strict enforcement are. And with China's WTO membership, we gain a number of advantages in enforcement we do not have today.

First, is WTO dispute settlement itself. In no previous agreement of any kind, has China agreed to subject its decisions to impartial review, judgment and ultimately the imposition of trade sanctions, if necessary.

Second, of course, is a continued right to use all of our trade laws. We make no changes in these laws, whatever, except by way of improvement.

Third, we gain substantial new leverage because of anti-import surge protections, as well as the guarantee of our right to use nonmarket economy dumping methodology. These features of the accession will significantly strengthen our ability to ensure fair trading practices.

Fourth, we strengthen our enforcement capabilities through multilateral nature of the WTO. The accession, to begin with, will create a multilateral review mechanism to monitor China's implementation. And as these commitments come into effect, China will be subject to enforcement by all 135 WTO members. This will significantly diminish China's ability to play its trading partners off against one another, a favorite pastime.

In previous disputes over Chinese compliance with agreements, most notably in intellectual property rights, the United States had to act alone. With China in the WTO, we will be able to work with the other 134 members, all of whom have an interest in China abiding fully by the commitments it makes to open its economy. This is unprecedented.

Fifth, the specificity of China's commitments in this bilateral agreement will also help us ensure Chinese compliance. Experience shows that agreements that are most satisfactorily enforced are those where obligations are concrete, specific and open to monitoring. The bilateral agreement we have concluded includes highly-specific commitments in all areas, a clear absolute timetable for implementation and firm end dates for full compliance. These allow us to monitor Chinese compliance and present clear evidence of failure to comply.

Sixth, of course, enforcement of this agreement, like any other, depends on U.S. commitment. We are already preparing for the monitoring and enforcing effort this will require through President Clinton's budget request, which I urge the committee to act upon, for new enforcement and compliance resources at USTR, Commerce, USDA and other Government agencies. The President is requesting a range of resources to ensure that we can fully monitor this agreement.

And last, under WTO rules, the U.S. retains the full right to exclude products made from prison labor. We maintain all of our export control laws—they are unaffected by this agreement—and we have the full right to withdraw benefits from China, including PNTR in the event of a national security emergency.

Let me just take one minute to turn to the work ahead and the critical importance of Congress voting for permanent normal trade relation status with China.

As comprehensive as our agreement is with China, China has some more work to do. Two steps remain: Completion of bilateral agreements with other of China's major trading partners, most notably the EU, and negotiation at the WTO of further rules-related issues. These steps are both proceeding.

Now, by contrast to the one-way concessions China makes to enter the WTO, we simply agree to maintain our present trade policies toward China. As China enters the WTO, we make no change, none, to our current market access policies. The chairman emphasized this point repeatedly, but I would also like to emphasize this point repeatedly. We make no change of any sort, not a percentage point in any current market access policy toward China. We change no laws concerning the export of technology to China or the export of sensitive materials to China. We amend none of our trade laws. Our one obligation is that we provide, on a permanent basis, the trade status we have accorded to China in every year for the last 22 years. And that is by making normal trade relations status with China permanent.

This, as I have said, is no change in our policy toward China. This is the tariff status we have given China in every year since, and including, 1979. But a legislative grant of permanent NTR is critical if we are to guarantee that we can receive the full benefits of the agreement we negotiated. It would be an extraordinary irony if the United States had opened the Chinese market for the rest of the world, but we were unable to participate fully in the benefits of the very agreement we negotiated. That, it seems to me, is an unacceptable outcome. It is an irrational outcome, all in exchange for merely confirming the 20-year trade status China has had with the United States.

WTO accession, with permanent NTR, has the potential to create a new and fundamentally transformed trade relationship with the world's fastest growing major economy, a remarkable set of new opportunities for American working people, businesses and farmers. It can, and I will conclude with this, promote deeper and swifter reform within China, strengthening the rule of law, offering new opportunities to the Chinese people. By speeding economic change, the agreement also has the potential to encourage China to evolve into a more open society. By advancing the flow of information, which this agreement will do, by advancing the pace of privatization, by advancing the force of competition, the agreement will accelerate a process that is removing Government from vast areas of people's lives in China, enabling them to farm their own their land, to find their own jobs, to decide their own futures in a more fundamental way and bring the information revolution to cities and towns across China.

It can, therefore, increase the chance that in the new century, China will be on the inside of the international system playing by the rules, instead of on the outside denying them. And it can offer the prospect of a relationship with the world's largest nation which may have moments of tension, surely will, but through which we also find common ground and strength and hopes for peace. That is the prospect before all of us and before you, the members of the Congress. These are the stakes, as you consider permanent normal trade relation status with China. This is an opportunity the United States must embrace. I ask you for your support.

It is, as always, Mr. Chairman, Mr. Rangel, the greatest pleasure to appear before you. Thank you.

[The prepared statement follows:]

Statement of the Hon. Charlene Barshefsky, Office of United States Trade Representative

Mr. Chairman, Congressman Rangel, Members of the Committee, thank you for this opportunity to testify on one of the most important American trade policy goals in many years.

CHINA'S ONE-WAY TRADE CONCESSIONS AND BROADER STRATEGIC GOALS

Last November, after years of negotiation, we reached a bilateral agreement with China on WTO accession. It secures broad-ranging, comprehensive, one-way trade concessions on China's part, granting the United States substantially greater market access across the spectrum of industrial goods, services and agriculture. This agreement strengthens our guarantees of fair trade. And it gives us far greater ability to enforce Chinese trade commitments. By contrast, we agree only to maintain the market access policies we already apply to China, and have for over twenty years, by making China's current Normal Trade Relations status permanent.

China's WTO accession is a clear economic win for the United States. Together with permanent NTR, it will open the world's largest nation to our goods, farm products and services in a way we have not seen in the modern era. Without permanent NTR, our competitors in Asia, Latin America, Canada and Europe will reap these benefits but American farmers and businesses may well be left behind. That is the fundamental choice before us as we debate permanent NTR.

But China's WTO accession also has deeper implications. Our relationship with China, given China's size and economic weight, affects all of America's foreign policy and security goals in Asia: from broad strategic interests to regional issues in Korea, Southeast Asia and elsewhere; human rights and religious freedom; weapons proliferation; environmental issues; labor rights; crime and narcotics trafficking; and many others. We have serious differences with China in a number of these issues, and have found areas of common ground as well. And we have a fundamental responsibility to develop a stable, mutually beneficial relationship in which we act upon areas of shared benefit and mutual interest. WTO accession will allow us to do so, as it complements and supports long-standing American goals in China policy:

—By helping to open and liberalize China's economy, WTO accession will create new economic freedoms for Chinese citizens and promote the rule of law in many fields now dominated by state power and control. A number of leading Chinese and Hong Kong advocates of democracy thus endorse WTO membership not only for its economic value, but as a foundation for broader future reforms.

—By integrating China more firmly into the Pacific and world economies, WTO accession will give China a greater stake in regional stability and prosperity. It will thus, together with our military presence in the Asia-Pacific and our regional alliances, be a factor in favor of long-term regional peace.

AMERICA AND THE TRADING SYSTEM

Let me begin my detailed review by putting the WTO accession in its historic context.

The World Trade Organization China now seeks to join has its roots in the General Agreement on Trade and Tariffs, or GATT. Its creation in 1948 reflected the personal experience of President Truman and his European counterparts in Depression and War. They had seen the Smoot-Hawley Act in America and similar protectionist policies overseas deepen the Depression and contribute to the political upheavals of the 1930s. Fifteen years later, they believed that by reopening world markets they could promote growth and raise living standards; and that, in tandem with a strong and confident security policy, as open markets gave nations greater stakes in stability and prosperity beyond their borders, a fragile peace would strengthen.

The work they began has now continued for over fifty years, and the faith they placed in open markets and the rule of law has been abundantly vindicated. Through eight Rounds of negotiations, and as 112 new members joined the 23 founders of the GATT, we abandoned the closed markets of the Depression era and helped to foster a fifty-year economic boom. America, as the world's largest exporter, benefits perhaps most of all: the efficiency of our industries and the high living standards of our families reflect both the gains we receive from open markets abroad, and the benefits of our own open-market policies at home.

But the development of the trading system has had equally important effects worldwide. As it has developed over the past fifty years, the world economy has grown six-fold; per capita income nearly tripled; and hundreds of millions of families escaped from poverty. And perhaps the best testimony to this success is that many of the new applicants to join the WTO are nations which are abandoning the postwar experiment in communist central planning.

CHINA'S ROAD: FROM REVOLUTION TO REFORM

And that brings me to China.

With the Communist revolution, China set out upon a very different road than the one President Truman and his colleagues had charted. After 1949, it shut doors it had once opened to the world. Among its new leaders' first steps were to expel foreign businesses from China and bar direct economic contact between Chinese citizens and the outside world. Inside China were similar policies: destruction of private internal trading networks linking Chinese cities and villages, abolition of private property and land ownership, and of course suppression of the right to object to these policies.

In essence, one cannot separate postwar China's deepening isolation from the outside world from its steadily increasing internal repression and diminishing space for individual life and freedom. Likewise, China's economic isolation had severe consequences for regional peace and stability: Asia's largest nation had little stake in prosperity and stability—in fact, saw advantage in warfare and revolution—beyond its borders. Every Pacific nation felt the consequences not only in economics and trade but in peace and security.

China's domestic reforms since 1978 have helped to undo this isolation, integrating China into the Pacific regional economy as they opened opportunities for Chinese at home. The results have been profoundly positive: as China's people regained the right to farm their own land, open businesses and choose their own places of employment, they have found new opportunities both to raise their living standards and determine their own futures. At the same time, China has moved gradually from a revolutionary role in the region to a willingness to play a positive and stabilizing role on issues as various as the maintenance of peace on the Korean peninsula and the Asian financial crisis.

A bipartisan American trade policy over the past thirty years has contributed to these positive trends. Broadly speaking, our goals have been to support Chinese domestic economic reform, integrate China into the Pacific regional economy, through a variety of means including commercially meaningful agreements that open opportunities for Americas. This has extended from the lifting of the trade embargo in 1972, to our Bilateral Commercial Agreement in 1980, trade agreements in the 1980s; and to a series of more recent agreements including:

—*Intellectual Property*—In the early 1990's, China's failure to protect intellectual property rights was one of the most problematic aspects in our trading relationship. Piracy of films, software, CDs, and other intellectual property works cost our industry hundreds of millions of dollars and led to trade confrontations with China, including invocation of sanctions on two occasions. The United States ultimately negotiated agreements in 1992 and 1995, and then won further commitments in 1996 that led China to pass world-class copyright, patent and trademark laws; close the vast majority of pirate production facilities; cease the export of pirated products and significantly improve enforcement—the principal focus of the agreements.

—*Textiles*—Likewise, textile transshipment and market access barriers have historically been a problem in our textile trade relationship with China. While problems remain, two separate agreements, in 1994 and 1997, combined with sustained enforcement efforts by the U.S. Customs Service and the Administration, as well as imposition of triple charge penalties, have helped to mitigate these problems. The 1997 agreement, in fact, committed China for the first time to significantly reduce its textile import restrictions.

—*Agriculture*—Most recently, our Agreement on Agricultural Cooperation in April of 1999 lifted long-standing bans on exports of American citrus, meats and Pacific Northwest wheat, imposed due to unscientific sanitary and phytosanitary measures. As in the cases of intellectual property and textiles, we are holding frequent consultations with the Chinese authorities charged with implementing the agreement.

Taken as a whole, this work has helped to open the Chinese economy; created a series of new opportunities for Americans; and given the Chinese public a much broader array of contacts with the outside world than at any time since the late 1940s. But the work is only partly done. China's trade barriers remain very high; a number of policies dating from the 1950s are still unchanged; and China's integration with the world economy remains insecure. Likewise, China's neighbors remain blocked from an economy which—like Japan's—could be an engine of growth. One index of this is our substantial trade deficit with China. Another is that since we extended Normal Trade Relations (formerly MFN status) to China in 1980, our exports to China have grown by only $10 billion, a figure significantly less than our total growth to most other major trading partners in Europe, North America and East Asia.

WTO accession thus represents a potentially profound and historic shift, building upon but going much further than China's domestic reforms to date. As it joins the WTO, China will do much more than reduce trade barriers at the border. For the first time since the 1940s, it will:

—Permit foreigners and Chinese businesses to import and freely into China;

—Reduce, and in some cases remove entirely, state control over internal distribution of goods and the provision of services;

—Enable foreign businesses to participate in information industries such as telecommunications including the Internet; and

—Subject its decisions in all areas covered by the WTO to enforcement, including through formal dispute settlement when necessary.

These commitments are a remarkable victory for economic reformers in China. China's domestic reforms have moved away from a number of policies from the era of the Cultural Revolution and Great Leap Forward. Its WTO accession will go further, helping to reform policies dating to the earliest years of the communist era: absolute government control over economic contact with foreigners, nationalization of major industries, and destruction of private local commerce within China.

Altogether, this will give China's people more access to information, and weaken the ability of hardliners in government to isolate China's public from outside influences and ideas. More deeply, it reflects a judgment—although one still not universally shared within China or its leadership—that prosperity, security and international respect will not come from the static nationalism, state power and state control over the economy China adopted after the war. Rather, China is more likely to gain these from the greater integration with the world, rising economic freedom at home, and ultimately development of the rule of law inherent in the initiative President Truman began in 1948 with the founding of the GATT.

The WTO accession, therefore, has potential beyond economics and trade: as a means to advance the rule of law in China, and a precedent for willingness to accept international standards of behavior in other fields. That is why many Hong Kong and Chinese activists for democracy and human rights—Martin Lee, the leader of Hong Kong's Democratic Party; Ren Wanding, a dissident who has spent years of his life in prison—see WTO accession as China's most important step toward reform in twenty years. And it is why our support for WTO accession rests on a broader long-term commitment to human rights and freedoms, as well as new opportunities and strengthened guarantees of fairness for Americans.

WTO ACCESSION AND AMERICAN TRADE INTERESTS

It also, of course, represents the achievement of specific American economic interests. While China's principal concern is the potential of WTO accession to create jobs and foster sustainable growth through economic reform, we have sought commercially meaningful and enforceable commitments that help Americans on the farm and on the job export to China, by addressing the many layers of trade barriers and policies which limit access.

The bilateral WTO agreement builds upon and consolidates reforms obtained in all our previous negotiations, and reflects our experience with the enforcement of those agreements. Clearly, to win its full benefits we must be vigilant in monitoring and enforcing compliance. And the bilateral agreement gives us all the tools necessary to do so. Thus, in all respects, this bilateral agreement meets the high standards President Clinton set years ago.

1. OVERVIEW

First, our bilateral agreement is *comprehensive*. It will reduce Chinese trade barriers across the range of goods, services and agricultural products; eliminate or sharply reduce restrictions on freedom to import and distribute goods within China; address industrial policies intended to draw jobs and technology to China; and strengthen our guarantees of fair trade practices. All these reflect the ideas, advice and guidance we have received over years of negotiations from Members of the Committee and Congress as a whole.

Second, it is fully *enforceable*. China's commitments in all areas are specific and include timetables and final dates for full implementation. These commitments are enforceable through our trade laws, WTO dispute settlement and other special mechanisms including periodic multilateral review of China's implementation and compliance. These will, of course, require vigilance and constant commitment to enforcement by the United States as well as by China's other trading partners in the WTO. We are committed to vigorous monitoring and enforcement, and are already preparing for this through a number of different means: for example, the President's budget this year requests a tripling of the Commerce Department's budget for China trade enforcement, and an additional full-time China officer at USTR.

And third, its results will be *rapid*. On accession to the WTO, China will begin opening its market from day one in virtually every sector. The phase-in of further concessions will be limited to five years in almost all cases, and in many cases one to three years.

Let me now offer some of the details in each major sector.

2. INDUSTRY

In industrial goods, China will cut tariffs from an average of 24.6% in 1997 to 9.4% by 2005 and bind them at these new, lower levels. It will eliminate quotas and other numerical restrictions. And it will allow American firms to import and distribute their products freely in China. This is essential, as American companies, farmers and workers need the ability to import, export and distribute goods in China to compete effectively—rights currently denied but which will be permitted under the agreement, allowing our businesses to export to China from here at home, and to have their own distribution networks in China, rather than being forced to set up factories there to sell products through Chinese partners. Some highlights include:

Trading Rights—China will grant American companies, over a three-year phase-in period, rights to import and export most products without Chinese middlemen. Currently, the right to engage in trade (importing and exporting) is strictly limited; only companies that receive specific authorization or who import goods to be used in production have such rights. This limits not only the ability of U.S. companies to do business in China, but in particular has limited U.S. exports.

Distribution—As in the case of trading rights, the right to distribute products is critical to our ability to export successfully to China. After accession, China will allow American firms to market, wholesale, retail, repair and transport their products—whether produced in China or imported. At present, China generally prohibits companies from distributing imported products or providing related distribution services such as repair and maintenance services. China will permit enterprises to engage in the full range of distribution services over a three-year phase-in period for almost all products.

Tariffs—China will make substantial tariff cuts on accession with further cuts phased in, two thirds of which will be completed in three years and almost all of which will be completed within five years. On U.S. priority industrial items, tariffs will drop on average to 7.1%—a figure comparable to those of most major U.S. trading partners. As in agriculture, China will bind tariffs at these low levels. Some specific examples include:

Information Technology Agreement—China will participate in the Information Technology Agreement (ITA), eliminating all tariffs on such information technology products as semiconductors, telecommunications equipment, computer and computer equipment and other items by 2003 in most cases and 2005 in a few others.

Autos—China will reduce tariffs on autos from rates of 80%–100% today to 25% in 2006, and on auto parts to an average of 10% from an average of over 23%.

Wood and Paper Products—China will reduce high tariffs on wood and paper to levels generally between 5% and 7.5%. As noted below, China will also implement any sectoral APEC Accelerated Tariff Liberalization initiative adopted by the WTO in this sector.

Chemicals—China will commit to the vast bulk of chemical harmonizations, reducing tariffs from present rates between 10%–35% to an average rate of 6.9%. These reductions include reductions on all priority U.S. chemical exports.

Furniture—China will reduce its current average tariff rate of 22% to 0% on all furniture items covered by the Uruguay Round sectoral initiative, by 2005.

Accelerated Tariff Liberalization—China has agreed to implement the Accelerated Tariff Liberalization initiative of APEC now under consideration in the WTO, when consensus is achieved. This would eliminate tariffs on forest products, environmental goods and services, energy and energy equipment, fish, toys, gems and jewelry, medical equipment and scientific instruments, and also includes chemical harmonization.

Non-Tariff Barriers—China will eliminate all quotas and other quantitative measures upon accession for top U.S. priorities including certain fertilizers and fiber-optic cable by 2002, and by 2005 in all cases.

3. Agriculture

In agriculture, China will make substantial reductions in tariffs both on accession to the WTO and over time. It will adopt tariff-rate quotas that provide significant market access for bulk commodities of special importance to American farmers. It will agree to apply science-based sanitary and phytosanitary standards including in grains, meats and fruits. And it will eliminate export subsidies. Notable achievements here include:

Tariffs—China's agricultural tariffs will fall from 31% to 14% for our priority items. All cuts occur over a maximum of four years, and will be bound at the applied levels. To cite a few examples:

	Current Level	Under the Agreement
Beef	45%	12%
Citrus	40%	12%
Apples	30%	10%
Cheese	50%	12%
Wine	65%	20%
Beer	70%	0%

TRQs—China will liberalize its purchase of bulk agricultural commodities like wheat, corn, rice, cotton and so on, through tariff-rate quotas—that is, very low tariffs (1% for bulk commodities) on a set volume of commodities. We include in this portion of the agreement provisions to maximize the likelihood that these TRQs are filled. In particular, a portion of each TRQ is reserved for importation through private traders, and TRQs which have not been filled will be redistributed to other end-users with an interest in importing on a first-come, first-served basis. Some salient examples include:

	1998 Total Imports	*Initial TRQ*	*2004 TRQ*	*Private Share*
Cotton	200,000 mt	743,000 mt	894,000 mt	67%
Wheat	2,000,000 mt	7,300,000 mt	9,636,000 mt	10%
Corn	250,000 mt	4,500,000 mt	7,200,000 mt	25%, grows to 40%
Rice total	250,000 mt	2,660,000 mt	5,320,000 mt	——
short/med grain	....	1,330,000 mt	2,660,000 mt	50%
long grain	....	1,330,000 mt	2,660,000 mt	10%

Export Subsidies—China will eliminate agricultural export subsidies. This is an important achievement in its own right, and a step toward our goal of totally eliminating export subsidies worldwide.

Domestic Support—China has committed to cap and reduce trade-distorting domestic subsidies. China also committed to provide greater transparency to make its domestic support measures more predictable.

Sanitary & Phytosanitary Standards—China will agree to apply sanitary and phytosanitary standards based on science. Among other things, this will give us additional means of enforcing the Agreement on Agricultural Cooperation and its commitment to lift longstanding bans on American meats, citrus fruit and Pacific Northwest wheat.

4. Services

In services, China will open markets across the spectrum of distribution services, financial services, telecommunications, professional, business and computer services, motion pictures, environmental services, and other industries.

Grandfathering—China will protect the existing activities and market access of all service providers operating in China at the time of accession.

Distribution—As noted above, China now generally prohibits firms from distributing products other than those they make in China, or from controlling their own distribution networks. Under the Agreement China has agreed to liberalize wholesaling and retailing services for most products, including imported goods, throughout China within three years. This will remove all restrictions on wholesaling, retailing, maintenance and repair, marketing, customer service and transportation, along with restrictions on auxiliary services including trucking and air express delivery, air courier, rental and leasing, storage and warehousing, advertising and others. This is of immense importance in its own right and as a step that will enable our exporters to do business more easily in China.

Insurance—Currently only two U.S. insurers are operating in China's market. With WTO accession, China agrees to award licenses solely on the basis of prudential criteria, with no economic-needs test or quantitative limits on the number of licenses issued; progressively eliminate geographic limitations within three years, and permit internal branching consistent with the elimination of these restrictions; over five years expand the scope of activities for foreign insurers to include group, health and pension lines of insurance. For non-life insurance, branch and joint-ventures at 51 percent equity share are permitted on accession, and wholly-owned subsidiary permitted within two years from date of accession. For life insurance, joint ventures are permitted with the partner of choice at 50 percent equity share upon accession.

Banking—Currently foreign banks are not permitted to do local currency business with Chinese clients, and only a few can engage in local currency business with their foreign clients. China also imposes severe geographic restrictions on the establishment of foreign banks. With this agreement, China commits to full market access in five years for U.S. banks. China will allow internal branching and provide national treatment for all newly permitted activities. It will also allow auto financing on accession, and allow local currency business with Chinese enterprises starting two years after accession, and allow local currency business with Chinese individuals from five years after accession. Both geographic and customer restrictions will be removed in five years.

Securities—China will permit minority foreign owned joint ventures to engage in fund management on the same terms as Chinese firms. Minority joint ventures will be allowed to underwrite domestic equity issues and underwrite and trade other securities (debt and equity). As the scope of business expands for Chinese firms, foreign joint venture securities companies will enjoy the same expansion in scope of business. China has also agreed to hold regular consultations with the U.S. Treasury Department under the auspices of our Joint Economic Commission with China. The purpose of this is to exchange information and assist the development of China's financial and capital market.

Telecommunications—China now prohibits foreign investment in telecommunications. With WTO accession, it will join the Basic Telecommunications Agreement, implementing regulatory principles including interconnection rights and regulatory rules. It will end geographic restrictions for paging and value-added services within two years, mobile and cellular within five years, and domestic wireline and closed user groups in six. It will also end its ban on foreign direct investment in telecommunications services, allowing 49% foreign investment in all services and 50% foreign ownership for value added and paging services in two years.

Audiovisual—China does not now allow foreign participation in distribution of sound recordings. Under the agreement, China will allow 49% foreign equity for the distribution of video and sound recordings, majority ownership in three years for construction and ownership and operation of cinemas. China has also agreed to allow the importation of 20 films per year on a revenue-sharing basis.

Other—Also covered is a broad range of other services—architecture, engineering, accounting, legal, travel and tourism, computer and business services, environmental services, franchising, express delivery and many more. In each, China has made specific, enforceable commitments that open markets and offer competitive American industries important new opportunities.

5. Protocol Issues

Finally, our bilateral agreement deals, appropriately, with the special and unusual characteristics of the Chinese economy. These include the high degree of state participation in the Chinese economy; a series of industrial policy measures intended to draw jobs and technology from the U.S. and other trading partners to China, such as local content, offset and export performance requirements as well as forced technology transfer; and special measures to address import surges from China and unfair export practices like dumping.

Altogether, no agreement on WTO accession has ever contained stronger measures to strengthen guarantees of fair trade and to address practices that distort trade and investment. China's major commitments in this regard include:

Import Surge Protection—China agrees to a twelve-year product-specific safeguard provision, which ensures that the U.S. can take effective action in case of increased imports from China which cause market disruption in the United States. This applies to all industries, permits us to act based on the lowest showing of injury, and act specifically against imports from China.

Non-Market Economy Dumping Methodology—China's WTO entry will guarantee our right to continue using our current "non-market economy" methodology in antidumping cases for fifteen years after China's accession to the WTO.

Subsidies—Likewise, when we apply our countervailing duty law to China, we will be able to take the special characteristics of China's economy into account. Specifically, where government benefits are provided to an industry sector and state-owned enterprises are the predominant recipients or receive a disproportionate share of those benefits, the United States could take action under our unfair trade laws. The agreement also establishes that the U.S. can determine whether government benefits, such as equity infusions or soft loans, have been provided to an industry using market-based criteria rather than Chinese government benchmarks.

Investment Reforms—China will reform a large number of policies intended to draw jobs and technology away from China's trading partners. It will, for example, implement the WTO's Agreement on Trade-Related Investment Measures agreement on accession; eliminate mandated offsets, local content and export performance requirements and refuse to enforce contracts containing these requirements; and not condition investment licenses on performance requirements of any kind. All of this will make it significantly easier for Americans to export to China from home, rather than seeing companies forced to set up in China in order to sell products there.

Technology Transfer—China will abolish requirements for technology transfer for U.S. companies to export or invest in China. This will better protect our competitiveness and the results of U.S. research and development.

State-Owned and State-Invested Companies—China commits that state trading companies and state-invested enterprises will make purchases and sales solely on commercial terms, specify that purchases by these companies are not government procurements and thus are not subject to any special or different rules that could undercut the basic commitment, and provide U.S. firms the opportunity to compete for sales and purchases on non-discriminatory terms and conditions.

Textiles—Under our agreement, quotas will remain in effect for Chinese textiles as for those of other WTO members until 2005. From then until January of 2009, we will have a special safeguard enabling us to address market-disrupting import surges from China in the textile sector. This is in addition to the broader product-specific safeguard noted above.

CASE STUDY: THE AUTO INDUSTRY

To illustrate more clearly the cumulative effect of these commitments, let me offer a case study of the present situation and the changes WTO accession will make for the automobile industry.

At present, a combination of trade barriers and industrial policies adopted to draw auto investment to China makes it virtually impossible to export cars to China. Typically, we export about 600 cars a year to China, many of them used; last year, the figure was likely below 400. This is far less than a single average U.S. auto dealership sells in a year, and fewer than the 688 motorized golf-carts we sold to China from January to November 1999. Our bilateral agreement addresses the policies which have limited our export capability as follows:

—We reduce barriers at the border: cutting tariffs from 80–100% today to 25% in 2006; forbidding discriminatory value-added taxes; and raising the current virtually prohibitive quota to $6 billion worth of autos and then eliminating it entirely within five years.

—We commit China to open its distribution markets and grant trading rights, ensuring that firms and dealerships in China can import autos directly from the United States, and that Americans can move their products freely within China to the areas of greatest demand.

—We open up services essential to auto sales: China will let auto firms provide financing, set up dealerships, advertise their products, provide repair and maintenance, and import parts.

—We abolish certain industrial policies intended to draw auto jobs, investment and technology to China: China will abandon requirements that require firms to set up factories in China in order to sell in China, and abolish local purchase requirements and forced technology transfer.

—We strengthen our guarantees that auto production and jobs in the United States will be secure. On the import side, we include in the agreement a "product-specific safeguard" available to all industries for 12 years—in this case, a guarantee that if auto imports from China should rise so as to cause market disruption, we can impose emergency limits; and a guarantee we will be able to employ special "non-market economy" methods of calculating and counteracting dumping for fifteen years.

—And we have enforcement mechanisms for all of these separate and overlapping commitments. This includes our own American trade laws and the WTO's dispute settlement mechanism.

Thus, we in essence have a comprehensive agreement on automobile trade; and we match it, although specific features differ, in every industry of significant concern to the U.S. economy.

ENFORCEMENT

Of course, trade commitments require full implementation and enforcement to be meaningful in practice. Our previous successes in improving intellectual property rights and enforcing textile commitments demonstrate how crucial constant oversight, monitoring, and strict enforcement are in the case of China, and our trading partners in general. And with China's WTO membership, we will gain a number of advantages in enforcement we do not now enjoy.

First is the WTO dispute mechanism itself. In no previous agreement has China agreed to subject its decisions to impartial review, judgment and ultimately imposition of sanctions if necessary.

Second, of course, is our continued right to use the full range of American trade laws, including Section 301, Special 301, and our countervailing duty and antidumping laws.

Third, we gain substantial new leverage by creating the product-specific safeguard, as well as guaranteeing our right to use non-market economy antidumping methodologies. These features of the accession will significantly strengthen our ability to ensure fair trading practices.

Fourth, and very significant, we strengthen our enforcement capabilities through the multilateral nature of the WTO. The accession, to begin with, will create a multilateral review mechanism to monitor all of China's implementation closely. And as these commitments come into effect, China will be subject to enforcement by all 135 WTO members, significantly diminishing China's ability to play its trading partners off against one another. In all previous disputes over Chinese compliance with agreements, notably those over intellectual property, the United States had to act alone. With China in the WTO, we will be able to work with 134 other members, many of whom will be concerned about the same issues we raise and all of whom will have the legal right to enforce China's commitments.

Fifth, the specificity of China's commitments in this bilateral agreement will help us ensure that China complies. Experience shows that agreements with China are enforced most satisfactorily when obligations are concrete, specific, and open to monitoring. Our bilateral agreement therefore includes highly specific commitments in all areas, clear time-tables for implementation, and firm end-dates for full compliance. These allow us carefully to monitor China's compliance and present clear evidence of failure to comply.

Finally, however, enforcement as in any agreement depends on U.S. commitment. We are already preparing for the monitoring and enforcement effort this will require through President Clinton's request for new enforcement and compliance resources at the USTR, the Commerce Department, USDA and other branches of government with enforcement responsibilities. The President is requesting resources for the largest monitoring and enforcement effort for any agreement ever, covering China's obligations in the WTO and also import administration issues such as dumping and countervailing duties.

NEXT STEPS

As comprehensive as this bilateral agreement is, China's work to join the WTO is not yet done.

First, it must reach bilateral market access agreements with other WTO members. While it has finished such agreements with approximately 15 WTO members including Japan, Brazil, Canada and other major trading partners, it must still complete talks with the EU, India, Mexico and others. China must also complete a multilateral negotiation at the WTO, principally covering commitments on a range of WTO rules. Each of these steps is proceeding, and upon completion, should strengthen the already very strong accession agreement we negotiated.

PERMANENT NORMAL TRADE RELATIONS

By contrast to this comprehensive set of enforceable one-way concessions on China's part, the U.S. commitment is merely to continue our present policies. Thus, the U.S.:

—Makes no changes in our current market access policies.

—Preserves our right to withdraw market access for China in the event of a national security emergency.

—Requires no changes in our laws controlling the export of sensitive technology.

—Amends none of our fair trade laws.

But we do have one obligation: we must grant China permanent NTR or risk losing the full benefits of the agreement we negotiated, including broad market access, special import protections, and rights to enforce China's commitments through WTO dispute settlement.

This is, in terms of our policy toward China, no real change. NTR is simply the tariff status we have given China since normalization of diplomatic relations in 1979; which Congress has reviewed every year since, and found to be in our fundamental national interest. Thus permanent NTR represents little real change in practice. But the legislative grant of permanent NTR is critical. All WTO members, including ourselves, pledge to give one another permanent NTR to enjoy the benefits available in one another's markets. If Congress were to refuse to grant permanent NTR, our Asian, Latin, Canadian and European competitors will reap these benefits but American farmers and businesses may well be left behind.

WTO ACCESSION AND AMERICAN STRATEGIC INTERESTS

From the perspective of trade policy, then, this choice is absolutely clear. China offers a set of one-way, enforceable trade concessions. In return, we are asked only to confirm the normal trade status we already grant to China; and if we do not, we run a substantial risk of permanently disadvantaging hundreds of American industries and their American workers.

From the perspective of reform and liberalization in China, the choice is equally clear. As it implements these commitments, China will become a country which is more open to the world, whose people enjoy more choices in daily life and more contacts with the outside world, and whose government in a number of important fields is more responsive to the rule of law than it is today.

But we must also look to a still deeper issue. China is the world's largest country, and over the past decade the world's fastest-growing major economy. The future course of our relationship will have great bearing on American security and strategy in the 21st century, and in this regard WTO accession offers us a great deal.

Our relationship with China today is free neither of deep-seated policy disagreements nor moments of tension. These are perhaps natural: we are great Pacific powers, and our governments reflect vastly different political systems and values. Such a relationship, however, poses profound questions for future peace and stability across much of the earth.

We should not, of course, imagine that a trade agreement will cure all our disagreements. Rather, as the President has said, when we disagree with China we must act with candor and a firm assertion of our interests and values. But as we do so, we must also recognize how important a stable and peaceful relationship with China is—for the world, the Chinese, and ourselves. And thus we have a fundamental responsibility to find and act upon areas of shared interest and benefit.

We saw this responsibility clearly, and acted upon it, in the Asian financial crisis two years ago. We see it in the maintenance of peace on the Korean peninsula; the search for stability in the Taiwan Strait; the environmental problems of the Asia-Pacific. And we have seen it in trade for over a quarter century.

American trade initiatives in China stretch from the end of the trade embargo in 1972 through our Commercial Agreement; the renewal of NTR for the past 20 years; more specific trade agreements in the 1980s; our support for China's participation in APEC; and the market access, textile and intellectual property rights agreements of the 1990s. Each step had a foundation in concrete American interests; but each also helped to promote reform and the rule of law within China, integrate China in the Pacific economy, and strengthen China's stake in prosperity and stability throughout Asia.

As such, together with our network of alliances and military commitments, trade policy has helped to strengthen guarantees of peace and security for us and for the world. And China's WTO accession will be the most significant step in this process for many years.

CONCLUSION

That is the fundamental meaning of this WTO accession.

It will create a new and fundamentally reformed trade relationship with the world's fastest-growing major economy, which offers practical, concrete benefits to cities and rural areas throughout America: stronger guarantees of fairness for our working people, farmers and businesses; new export opportunities that mean jobs and growth for Americans.

It will promote deeper and swifter reform within China, strengthening the rule of law and offering new opportunities and hope for a better life to hundreds of millions of Chinese.

And it will offer the prospect of a relationship with the world's largest nation which may have moments of tension and volatility, but in which we also act to find common ground and strengthen hopes for peace.

That is the opportunity before us; and it is one our country must not miss. I thus ask for the Committee's support as we seek permanent normal trade relations with China and its accession to the World Trade Organization.

Thank you, Mr. Chairman and Members of the Committee.

Chairman ARCHER. Thank you, Ambassador Barshefsky. My questions will be very brief. First, what options are available to the Congress on this issue?

Ambassador BARSHEFSKY. I don't see any options available to Congress on this issue. We must grant permanent NTR to China in order to have a WTO relationship with China and in order to guarantee that we will receive the benefits of the agreement we negotiated.

Chairman ARCHER. Do we have the ability to vary the agreement that you have negotiated?

Ambassador BARSHEFSKY. The bilateral agreement that we have with China is final. There are additional countries, however, that are still in negotiation with China.

Chairman ARCHER. I understand. But if the Congress made any effort to change the terms of the agreement, what would happen?

Ambassador BARSHEFSKY. I think that potentially presents us with a serious situation. China has every reason to believe our negotiation with them is final. We consulted very closely over the past 7 years with industry, with Congress, with respect to this agreement. There are some areas in the agreement, I will use an example of fertilizer, where we would like to get a little bit more. We know, for example, Europe is asking for more. Any add-on to our agreement that any other country gets, we will also get the benefit of, and we, of course, will continue to work with China bilaterally to the extent members indicate to us there are any particular deficiencies they would like us to work on.

Chairman ARCHER. If we do not approve permanent NTR for China, what would be the result?

Ambassador BARSHEFSKY. First of all, we will have opened the Chinese market for the rest of the world because China will still enter the WTO, but we will not be able to have the full benefits of what we negotiated.

Second of all, I think in terms of U.S./China relations, that outcome would be exceptionally, exceptionally damaging. Can you imagine for 13 years this negotiation has been going on—actually 14 years now—for 14 years the United States has asked China to do what they are willing to do now. Can you imagine the effect on relations were they to say, yes, and we say, no? I think this would be quite devastating to U.S./China relations.

And, last, what would it do to our leverage on any other issue in China? Human rights? Nonproliferation? Cooperation on environmental related issues? What is the effect of the United States turning away at this most critical juncture on our ability to influence Chinese practices in a range of other areas of fundamental concern to the United States. I think a failure by Congress to grant permanent normal trade relations would be of the utmost seriousness.

Chairman ARCHER. As our chief trade negotiator you share with us concern about the trade deficits with China?

Ambassador BARSHEFSKY. Yes.

Chairman ARCHER. If we fail to approve permanent NTR for China, what would occur to our trade deficits?

Ambassador BARSHEFSKY. We know from an ITC study, which didn't take into account a number of factors in the agreement, and from the CBO study that we are likely to see an important increase in our exports to China. We also know from the ITC—

Chairman ARCHER. No, no. If we fail to approve NTR?

Ambassador BARSHEFSKY. If we fail to, I have grave concerns about our future export performance to China. I think that this would undoubtedly increase the trade deficit without any possible offset.

Chairman ARCHER. Well, it is clear to me in the most simple logic that if China's trade barriers stay high against our exports and are reduced for the exports from other countries in the world, our trade deficit with China will increase.

Ambassador BARSHEFSKY. Correct. That is what we believe.

Chairman ARCHER. There is no way that it can be reduced.

Ambassador BARSHEFSKY. That is what we would expect.

Chairman ARCHER. And that is important to understand because some of the opponents of this express concern about the trade deficit as the reason for not giving permanent trade relations with China and—

Ambassador BARSHEFSKY. The reasoning is exactly the reverse.

Chairman ARCHER. Thank you very much.

Again, thank you for appearing before us.

Mr. Rangel.

Mr. RANGEL. Thank you, Mr. Chairman.

This is really one of the most sensitive and, yet, historic periods that I have ever been involved in. If we had hearings in Manhattan and I stayed down below 42nd Street, everyone would say why did it take so long to open up those markets in China? The investment bankers, the insurance industries, the whole financial districts they can see a billion people and all they see is opportunity, the creation of more jobs, the transfer of technology. And it is so exciting that on our watch that we would be able to say that we were a part of doing this and bringing them into a family so that we can provide some oversight.

Then you get above 42nd Street, where people are working in the factories, and they ask questions like, how many millions of people work in China in State-owned and State-invested enterprises? And some would say, millions. And they say, and are these basically smart people or people that can learn fast? You bet your life they can. And even if they couldn't, don't we have the technology in terms of making things to teach them how to do it? You bet your life we do.

Well, how do you explain that if we went over there and taught them how to make automobiles, motorcycles, telephones, computers, and our American entrepreneurs don't have to deal with minimum wage and health control and environmental conditions and standards at the work force, would it not make a heck of a lot of sense to have these things made by competent workers in China at a dollar a day than $20 an hour some place in Detroit or New York, if you know you are going to get quality?

And what is it that would prevent a person that is concerned about getting a good return on the stock investment and saying, given the options, China looks pretty good. How would you answer that, Ambassador?

Ambassador BARSHEFSKY. I would answer it by referring to, I think, a central point. This is a series of one-way, market-opening, trade concessions by China. There is no effect on imports into the U.S. because of this agreement. That is to say we are not altering our trade regime one iota. The whole focus of this agreement is on our ability to export from the United States to China. We did not alter Chinese investment rules to make it massively easier to invest in China. That is not the purpose of this agreement. The purpose is job creation in the U.S., the increase in our export opportunities from the U.S. It is one of the reasons, Congressman, that we focus so heavily on trading rights, on the right to distribution, because we need to get our products out of the United States and over there from the United States. And the entire agreement, from soup to nuts, is geared toward that end.

The one change we did make on the investment side which I think is very important and goes to the same question you have asked is that we don't want the Chinese to be able to have a system that drains jobs or technology from the United States as a condition of doing business in China or as a condition of importing into China or as a condition of investing in China if companies want to invest.

So, forced technology transfer will be prohibited. Local content requirements in China prohibited. You don't have to set up shop in China to sell into China.

Mr. RANGEL. Okay. I understand that we are expanding our markets in China and that is what the agreement is about. But in terms of protecting our workers about things that they do in China, how does that relate to the agreement with the ridiculous hypothetical that I set up where near-to-nothing wages—I mean I visited some of those State factories and they look pretty good to me in terms of the work being produced. Of course, the conditions in which they were working and the wages that they were receiving did not compare to the United States.

And, so, if people are concerned that it is possible, with hundreds of millions of people working in China, that all of the jobs that we have in the United States could just be sucked into China because they could produce a comparable product—I am not talking about the high-tech stuff—at a cost that was minuscule compared to what it is here. And I am just trying to ask you how I can explain above 42nd Street why this is such a good deal?

I mean I can see why it would be best to support permanent trade relationship, I can see why we would want them in the WTO so we can monitor them. I could see why progress causes some pain and this is the adjustment you have to make and balance the more jobs you get then you lose. But when I hear members and people saying this is win-win-win, nobody loses, then I just want you to give me that winning argument for the factory workers and say, hey, you win, too. Now, how do they win?

Ambassador BARSHEFSKY. As I have said—and I will answer your full question—factory workers win because they will be able to export products to China they can't export now and have never been able to since 1949.

Mr. RANGEL. Why would China want to import products that they can make for a fraction of the cost?

Ambassador BARSHEFSKY. Oh. Because many of their—because their State-owned enterprises, by and large, are loss-making. They are not modern. The quality produced is not good.

Mr. RANGEL. That is good. Now, if I run the U.S. Widget Company and I visit China and I find out that these millions of people are not that good but they are hard-working and they are ready to put in 15 hours a day, and I bring in my scientists and my technicians from MIT and I say, look, you know, pretty much we do in economic depressed areas in the United States and I say, hey, these people need—like you do in the Army—these people need some training, and they need some technology; can you bring—like you do in other developed—can you bring them up? And they say, yes, we can do it.

And I see all of these millions of people just doing what we do here in the United States, maybe not as well. But you say this is no threat at all.

Ambassador BARSHEFSKY. I don't think a weak China, I don't think a China in which per capita GDP is $600 a year is in our interest. I don't think it has ever been U.S. policy to keep poor countries poor or to stop them from developing the industries that they need. Our policy, instead, has been a much more mutually supportive policy; one which promotes prosperity. They will be better countries as they gain on the income scale; not if they stay where they are and certainly not if they fall on the income scale.

Mr. RANGEL. Well, that is my point. We would encourage investment there, we would encourage the transfer of technology, we would encourage productivity so that they would have more disposable income so that they could buy more U.S. exports.

Ambassador BARSHEFSKY. But this agreement does not encourage additional investment in China.

Mr. RANGEL. But I mean it doesn't stop it.

Ambassador BARSHEFSKY. It certainly doesn't stop it but I don't think it is U.S. policy to stop private companies from investing in other countries.

Mr. RANGEL. Okay. I just asked for an answer to see how I could tell the American workers that you are winners in this, too. I think the way I had looked at it that there are winners and there are losers. And on balance, I thought you would say that there are far more winners in the long run, especially since we cannot control the free market place. But if you are saying that we should tell our labor leaders that they should look for expanded membership because this is going to be a big boom for them and that they ought to tell their kids to get out and learn trade unionism because it is coming back like never before, then I will try that. [Laughter.]

Ambassador BARSHEFSKY. If I may say, just to reemphasize, this agreement is geared towards exports from the U.S. Let me use the auto sector as an example. Right now you can barely export any cars from the U.S. to China at all. Some snow mobiles, a couple of hundred cars, mainly used cars. That is it. Why? Because you have no right to export to China. That will be removed. You have high tariffs, 80-to-100 percent; that will go down to 25. The Asian average is 40. You can't then set up a dealership; you will be able to now. You can't distribute your product; you will be able to now. You can't service the product; you would be able to now.

Mr. RANGEL. If they were operating in good faith, and they are opening up their markets to us because they think it would make sense, why would we have to deal with the WTO? Why couldn't we have a bilateral agreement and let them buy the cars?

Ambassador BARSHEFSKY. Because China won't make—we are talking about concessions across the entirety of the Chinese economy.

Mr. RANGEL. My side said we didn't give up anything to China, we were win-win-win. We didn't give them anything. They want to buy cars, they want to open up their markets and we agreed with them and they just gave us everything we wanted. Why do we have to be involved with the WTO? Why is the Congress involved? Let the free market place work its will. Open up your markets and buy what we got.

Ambassador BARSHEFSKY. I would hope your argument isn't that a rules-based trading system is of no value to the United States because that is a proposition I couldn't possibly accept. It is all the more important that China be bound by a system of rules which are enforceable and which are monitored by the countries of the world so it doesn't just fall on the United States to try and make its way as best it can with China.

I think it is very important, if we believe in economic reform for China, if we believe in advancing a rule of law in China, if we believe that China ought to be under some degree of multilateral surveillance with respect to economic reform, if we believe that there may be a positive spillover effects from economic reform to reform in other fields, surely we want China in the WTO bound by a set of enforceable rules.

I don't know how else one would go about trying to encourage reform in China and at the same time trying to advance our own fundamental interests, both economic as well as human rights related.

Chairman ARCHER. Succinctly, compared to current law, which is the only comparison we can really make—

Ambassador BARSHEFSKY. Yes.

Chairman ARCHER.—there will be no losers in the U.S.?

Ambassador BARSHEFSKY. Correct.

Chairman ARCHER. Mr. Crane?

Mr. CRANE. Thank you, Mr. Chairman.

And, again, congratulations, Ambassador, you have done a remarkable job as usual. I would like to remind our distinguished colleague from New York that for all those people north of 42nd Street, remind them that if we don't lower these barriers there are great opportunities to open up business in China and shut them down in New York City. And, in fact, we have already suffered that in some instances because of the artificial barriers to trade. And I would remind our Chairman, too, that one of the big concerns—and we have heard some of it expressed by witnesses already—is a huge surge in U.S. imports and it is the Great Wall of China for the descendants of Smoot & Hawley to put around the United States to prevent goods from coming in.

I want to touch upon one issue that you mentioned earlier and that has to do with the fertilizer sector and it is one of the areas where I have got a parochial interest in my district because we have one of the large fertilizer producers. But that is our fourth largest export to China and it is over $1 billion a year right now as I understand it.

Ambassador BARSHEFSKY. Yes.

Mr. CRANE. But we didn't get significant opportunities to make further progress here. Have you got any update on that and what the future may hold?

Ambassador BARSHEFSKY. Well, we made good progress in reducing fertilizer tariffs, lifting bans and full rights to distribution over time. Where we have run into a problem is with respect to trading rights on fertilizer. That is a serious problem. I have talked about it to Zhu Rongji as well as others in the Chinese leadership. China has agreed to try and work this out with us and we are in the process of attempting to do just that.

Mr. CRANE. And the second question is in Section 1106 of the Omnibus Trade and Competitiveness Act of 1988, that requires the President to make certain determinations about China's State trading enterprises before they accede to the WTO including whether China's State trading enterprises are adversely affecting U.S. foreign trade. And at what point in the WTO negotiations with China will the President make a determination on that issue?

Ambassador BARSHEFSKY. Well, we have spent a considerable amount of time on the State trading enterprise issue and there will be further work on that done in Geneva. We have firm commitments from China with respect to the manner in which State trading enterprises will conduct their business, that is to say on commercial terms. But we have expanded the definition of State enterprise to include not only State trading enterprises, not only State-owned enterprises but, most importantly, State-invested enterprises.

So, that we have within the rules any form of State involvement in enterprises which make goods or which provide services. So, we will be making determinations on this in the course as we proceed with the accession but we feel quite comfortable in the way in which we are now able to handle much better the State enterprise issue.

Mr. CRANE. And my final question is—and we have it here in the United States, too, divisions between those who support expanding free trade and those who are opposed to it—but I understand there are also disagreements within China proper between reformers and nonreformers. And do you expect China to have any difficulty in ratifying the WTO accession from within their own ranks?

Ambassador BARSHEFSKY. I would not expect any difficulty. I think the fundamental decision to join the WTO has been made as evidenced by China's agreement bilaterally with the United States. But I would make this point and it really goes to the question that Chairman Archer asked about the effect if PNTR were not granted to China and that is this: There is clearly still a leadership split in China. The majority favors economic reform but there is, as you know, a strong minority which views things quite differently.

We should do nothing that would strengthen the hands of the hardliners in China, those who would rather see the population cut off, more isolated. We should do everything we can to strengthen the hands of the reformers in China who want to see China modernize at a more rapid rate, providing not only opportunity for us but much greater opportunity for the Chinese people. And it is because that leadership split still exists that PNTR becomes all the more important.

Mr. CRANE. Now, we, as you know, have some of those same divisions in our own ranks but we thank you for the outstanding work that you have done, keep up.

Ambassador BARSHEFSKY. Thank you.

Chairman ARCHER. Mr. Thomas?

Mr. THOMAS. Thank you, Mr. Chairman.

I want to start by thanking our colleague Sandy Levin for the very thoughtful statement that he has presented. Rarely do we get specific, concrete proposals; rather we get general and vague feelings, and I appreciate the specificity with which he outlined his concerns.

I want to strongly support the first proposition. I wouldn't ordinarily say this is something that would be useful or necessary but in our ongoing need to bring China into the rest of the world, this approach I think, if done correctly, should be seen as a very positive review structure rather than a negative one, and I think it is definitely worth pursuing.

On his second point about annual review, maybe it is too difficult to change the structure. That does spotlight them. But clearly if we can put it into the normal review process or some nonextraordinary but not annual review process that might be useful.

Again, also on the third point, I don't know that moving in that direction right now creates the atmosphere that I think we need. But I want to strongly support you on your fourth and fifth point.

When democracies and Democrats, small "d", within those democracies discuss labor, I think it is an entirely appropriate process to say, do we want to export our labor laws, our price structure to another country that maybe is bootstrapping it if it is a fundamental democracy and they want to invest and use what they have as an advantage which is cheap labor and that they don't always want to be in that position, they want to advance themselves.

But I want to underscore the fact that I don't think any of us should be opposed to reviewing the world's largest nonmarket economy's emergence into a market world and not get them to understand that this is of critical concern. And that, both in point four and five, China must show transparency. And the documents, which is the fifth point, have to be governed by transparency.

Someone told me the other day, well, at worst it is simply going to be another European Union in the WTO. We don't need another EU. Or, more specifically, it is just going to be another France. We don't need another France. And if a little earlier behavioral training can stop that from occurring, especially as we begin to move in the area of intellectual property rights where you get into cultural content and the rest, it would certainly serve all of us to create these monitoring, reporting, supportive and instructional aspects of Sandy's proposal. And I want to thank you for that, Sandy.

As to my friend from New York. I enjoy listening to your concern about above 42nd Street and below 42nd Street. West of the Hudson there is a fairly large country.

[Laughter.]

Mr. THOMAS. And I enjoy these discussions about what China is going to do next, i.e., start importing cars and drive the automobile market from the United States. I just want to remind my friends that the United States is the cheapest country in the world where you can drink water from a faucet in building cars. Why else is Mercedes building SUVs here, why else is BMW building SAV, a sports activity vehicle? When you look at comparative magazines and look, say, for example, at the product from Korea in the automotive business which is getting better—originally they were using old patented copies of Japanese products—it is always they are getting better but they haven't met the Japanese standard. When, in fact, most people don't realize that the Toyota Camry or the Honda Accord, which is the Japanese standard, are manufactured in the United States. So, it is the United States notwithstanding the engineering and approach to production that the Japanese have brought—which Americans have to a certain extent copied, which is a word that is often used in the other direction—to produce better products ourselves.

And then the last thing is a question to you, Ms. Ambassador. I appreciate the work that you have done. I have marveled at your willingness to stay with it, notwithstanding the slings and arrows of everybody's outrageous fortune towards you including those people who are supposed to be most supportive of you. You said last week that in terms of the Seattle situation the President made some off-the-cuff remarks. We are in the eighth year of the Clinton Administration, the last year. You placed an extraordinary importance on the passage of this legislation. I agree with you. It is my hope that we won't be hearing off-the-cuff remarks from the President, that he be scripted as best you or whoever it is that is going to advise him scripts him on what he says. But more importantly it is what he does.

If he says it is up to the business community and others to deliver Democratic votes on this issue, he hasn't been in my opinion well scripted. If the President and the Vice President, in fact, want this passed they are going to have to roll up their sleeves and help deliver the Democrat votes.

We will do the best we can on our side. But it requires everyone not passing the buck to someone else but everyone, including the President and the Vice President, working as hard as they can to deliver the vote, in my opinion, as soon as we can. Time is our enemy and things happen that we don't anticipate but that it is everyone's responsibility who wants to see a better, more ordered world trading structure that includes China, to get to work.

And my only message to you is I hope you can carry that message to him: No unscripted remarks and really hard work from the President and the Vice President in delivering the votes necessary to pass.

Ambassador BARSHEFSKY. If I might respond and you can imagine that I would want to. I think the President has shown, not only during the course of his Presidency but in his campaign before he ever became President, a consistency of purpose, a consistency of philosophy that really, particularly on international economic matters, that I believe is unmatched by any other President. I think the notion of the President needing to be scripted, there aren't enough IQ points in this room cumulatively to script the President. He knows where he wants to go on these issues. On occasion, as he has said, himself, he says some things that perhaps didn't come out quite right. But I think that there is no question about his absolute dedication to the international economic issues, his leadership on those issues, his vision, his philosophy with respect to not only trade issues but also with respect to what he views as important additional components, whether labor rights, environmental or other issues.

I think also it will be necessary that a comprehensive effort is put forward to pass permanent NTR and certainly, and I agree with you on this, this will involve all elements of those who support PNTR: The Administration, led by the President, and he is very clearly doing that already; the business community, members of Congress, so on and so forth.

And I think that kind of comprehensive effort will bring about a permanent normal trade relations for China.

Mr. THOMAS. The past is prologue, words are cheap, we have a very short time.

Thank you.

Mr. CRANE [presiding]. Mr. Levin.

Does the gentleman want to yield to Mr. Matsui first?

Mr. LEVIN. Aren't you following—I do believe in seniority now that I am number five on this side.

Mr. CRANE. No. The only reason I called upon you, Mr. Levin, was that you were here in the committee room before Mr. Matsui. So, I am sorry, Mr. Matsui, we will yield to you first.

Mr. LEVIN. Okay. Please, go ahead.

Mr. MATSUI. Thank you, Mr. Chairman.

I appreciate your yielding to me. First, I want to thank Ambassador Barshefsky for being here today and congratulate her on the tremendous agreement that she reached last November with respect to the Chinese. I think it was far-reaching, I think it was comprehensive and it certainly was one that I think the entire country did not expect. It was much greater than anybody could have imagined and I think it was due to your, obviously, perseverance, but negotiating skills and we really appreciate it very much.

I would like to associate myself only with the comments of Mr. Thomas as it pertains to Mr. Levin, not with respect to Mr. Rangel or the President. I think Mr. Levin's opening statement and the five points that he raised really are things that we need to look at. I think it is very comprehensive, it doesn't touch upon the basic agreement, it doesn't require going back to the Chinese and renegotiating and it is one that I think a broad spectrum of members on both sides of the aisle would really appreciate if we can find some way to approach this issue with respect to incorporating some of the principles that he stated in his opening statement. I want to thank you and I think the thoughtful approach that you put to this has actually helped further this debate and I want to tell you that I associate myself with what you have done and what Mr. Thomas said about your comments.

I would like to just make one observation and that is a lot of members and certainly the American public does not know what we are going to be voting on if the Europeans complete the agreement with the Chinese and the other countries eventually, too, and then we do the protocol and China is finally admitted into the WTO. I think we need to really spend a moment on that and other moments as well, beyond the committee room.

Ambassador, if you could help me; what exactly are we going to be voting on and if we turn down the vote, that is the waiver of the Jackson-Vanik on a permanent basis with respect to China, what are the consequences of that in terms of the Europeans, the Japanese, the Brazilians and others with respect to the Chinese market and our ability to compete in the Chinese market?

Ambassador BARSHEFSKY. Members of Congress are not voting on China's accession to the WTO. That is within the President's prerogative after all the WTO requirements have been met. What Congress will be voting on is providing permanent normal trade status for China. PNTR is critical because without it we do not have a WTO relationship with a country that accedes. A WTO relationship in this instance would guarantee that we would have the full benefits of the agreement that we negotiated.

Without that guarantee we run a very substantial risk, as I said, that we would have opened China to our Japanese competitors, European, Latin American, African competitors but not be able to take full advantage of what we, ourselves, negotiated in terms of market opening in China. This is acutely the case with respect to the full range of service sectors, with respect to trading rights and distribution rights, with respect to all of the special safeguard provisions we have negotiated on import surges, dumping, tech transfer and so on, and with respect to dispute settlement. Every one of those market opening and market protective initiatives would be cast in very substantial doubt. Available to everyone else in the world, but quite possibly and quite probably not available to us.

Mr. MATSUI. In terms of the amount of growth China will have over the next decade I have heard a trillion worth of infrastructure. They will probably have to build every year the equivalent of a one Pacific Telesys unit in terms of just trying to get the consumers to have, instead of currently maybe two telephones in every home, five or six. Could you tell me what the perspective is on China's growth and if we are not in there what will happen with respect to the French and Germans and others?

Ambassador BARSHEFSKY. I can't give you precise numbers. I see numbers all over the lot. But what we do know is that China's rate of economic growth is among the strongest in the world. Their infrastructure needs are among the highest in the world. And the opportunities for us certainly over a number of years amount in the trillions of dollars. These are not small sums of money. These are massive sums of goods, services, investment, agricultural products, which China will need over time.

I think the CRS study, if memory serves, has indicated that under the agreement we would, in effect, see our exports to China almost double in the next five years. I think that is a preliminary indication of the range of opportunity that would be available to U.S. exporters over a very short period of time.

Mr. MATSUI. May I bring one specific issue up and that is UPS. UPS has been trying to get into the China market for years now.

Ambassador BARSHEFSKY. Right.

Mr. MATSUI. In fact, many of us on this committee and others have written letters seeking opening the Chinese market to United Parcel Service, UPS. Now, how does that create U.S. jobs and how does that actually increase perhaps the membership of the Teamsters Union?

Because my thinking on this is that if I have a package and I want to send it to China somebody has to pick that package up. And I would imagine if we have doubling or tripling of that over the next ten years, that means doubling or tripling UPS employees, thereby, doubling and tripling membership in the Teamsters Union.

And it would seem to me that it would be in the interest of the employees and the management and the country, at large, if, in fact, we promoted growth and more employment and perhaps stronger unions, as well.

Ambassador BARSHEFSKY. Well, I don't disagree with anything you have just said. Express delivery service are among the services that will be further substantially opened upon accession. That includes, of course, for example, UPS, as you have indicated. And certainly enhancing opportunities for express delivery in China and around the world necessarily enhances the opportunities for those workers who would be employed in picking up packages, sorting, all of the attendant jobs related to transport services.

Mr. MATSUI. Thank you very much.

Mr. CRANE. Mrs. Johnson.

Mrs. JOHNSON. Thank you.

Ambassador, first, let me congratulate you and your team for negotiating a truly remarkable agreement both for its comprehensiveness and for its strength. And let me also congratulate your Chinese counterparts because it took great courage on their part to negotiate an agreement that will immediately expose their market to an influx of goods from around the world, not just from America, and that will have some dislocating effects, without question. But it also reflects great faith on their part that their people will be able to be the quality employees that will capable of producing goods at a cost and quality that will be competitive. So, in return for market opening and a great opportunity to sell, we do challenge ourselves as a society to continued excellence in production.

And I think what I would say to Charlie's people above 42nd Street is that we have succeeded in competing, their jobs are there today with very limited market access on our part to not only China but eventually to some other markets of the world, and that the more we can sell the more secure their jobs are. But without question they will have to learn and become better and better producers because all those people in other countries will also be learning and becoming better and better producers. I think that is good for all of us. Finally it will raise the standard of living across the world and secure greater peace.

But what I want to give you a chance to address, because I really am very pleased that you have retained the right to the nonmarket methodology. That has been so critical in fundamental areas like bearings—

Ambassador BARSHEFSKY. Yes, of course.

Mrs. JOHNSON.—and it is really important to be able to enforce our anti-dumping laws in countries where they don't determine price in the way we do.

Ambassador BARSHEFSKY. Correct.

Mrs. JOHNSON. So, I think the import surge protection and some other things that you have negotiated I think you need to go into a little greater depth as to how this agreement does—and compare it to other agreements. With intellectual property rights it took us several follow-on agreements to enforce that.

Ambassador BARSHEFSKY. Yes.

Mrs. JOHNSON. And I think most of us understand how, in general, a rules-based regimen which the WTO represents helps us because then you have got all the countries joining with you to enforce. But beyond that sort of rules-based structure which is the big item here, nonetheless, below that you have negotiated a number of very specific enforcement provisions that do not exist in any other international trade agreement to my knowledge.

Ambassador BARSHEFSKY. Yes.

Mrs. JOHNSON. And I would like to have you go through some of that because when we did NAFTA people never got the detail of the tracing requirements which really did give us a very great power to assure that components would be produced in the free trade nations.

So, would you go into a little more detail with some of the enforcement mechanisms that will guarantee that American jobs will survive in a fair trade regimen.

Ambassador BARSHEFSKY. Right. I think the important point here that implementation of PNTR, in the case of every other accession that the U.S. has ever done, we have either the dispute settlement rules that apply under the international body or we have our own trade laws but we don't really have any other specific mechanisms designed either to be protective of our own market or designed to act also as leverage on market opening and compliance in the foreign market. And we rectified that here in a number of ways which we have never done before in an accession agreement.

One is the anti-import surge mechanism. If, for any reason, Chinese imports into the U.S. surge, as for example, they did on steel last year as you well know, we will be able to take action and on a temporary basis, somewhere between two or three years, block or otherwise reduce the volume of those imports.

Second of all, we have secured the right to continued use of the nonmarket economy methodology in the dumping law. This is very, very important because we don't yet know how prices and costs are established in China except to say that they are not on a market basis.

Obviously China will be able to demonstrate, as all countries can under our existing regulations, that they are operating on a market economy basis in a particular sector. But findings after that, as under our law, are open for the Commerce Department, and at this juncture the critical aspect is that we have preserved in full our current nonmarket economy dumping methodology, all of the regulations and so on.

Third, we have also negotiated a few special subsidy rules. You know that our countervailing duty law does not apply to nonmarket economies. This is because of a series of court cases. This is not an administrative determination by either this or the Bush Administration. This is a series of court rulings. But we thought, well, we should think ahead and, so, to the extent that countervail law is deemed to apply, first off, preferential financing will be determined by market rates. That is whether financing is preferential would be determined by market rates in China, not by rates charged by the Chinese Government. And, second of all, China will not be able to have as a defense in a subsidies case the idea that it subsidizes everything so nothing is a subsidy. We think we have closed that loophole quite neatly.

This, again, is another series of provisions we have in other accession agreement, nor did we ever have it in the case of other nonmarket economies that have joined the WTO and the GATT system before it, like Poland, Hungary, Romania. Poland was, for example, plainly a nonmarket economy when it joined and we had no such provisions at that time.

And, of course, we have also clarified the rules on things like forced technology transfer, local content requirements and the like to make clear these will be violations if they occur, and this is quite clear and that is also of great assistance to us and, again, never before negotiated.

Mrs. JOHNSON. Now, that means that they cannot require that if an American company wants to sell into their market that they must produce 10 percent of the product there?

Ambassador BARSHEFSKY. Correct.

Mrs. JOHNSON. That is quite common now.

Ambassador BARSHEFSKY. That is the rule now.

Mrs. JOHNSON. Right, it is really the rule. And it is one of the reasons we are losing jobs sometimes just to be able to meet the domestic production requirement. So, when that is wiped out we will be able to sell without having to invest and produce some of the product actually in China?

Ambassador BARSHEFSKY. Correct. Absolutely correct.

Mrs. JOHNSON. And will this be implemented over time?

Ambassador BARSHEFSKY. No. Effective upon accession.

Mrs. JOHNSON. That is extremely important. So, that is also unique to this?

Ambassador BARSHEFSKY. Yes. This is also unique. There a number of other features but I think these are among the main ones. We took special care because I think as Congressman Rangel pointed out, you know, China's economy is not the norm and we have to really be very careful about how we go about this accession. We have to try and anticipate looking into the future. We have to be sure that the commitments to which China has agreed are very specific so there is no question what they were supposed to do by what date. And these unique series of enforcement mechanisms reflect also the fact that we want to be absolutely as sure as we can be that we can preserve fully the agreement that we negotiated in terms of benefits to the United States and protect our own market in unforeseen events.

Mrs. JOHNSON. Is this not the first agreement to have that many dates?

Ambassador BARSHEFSKY. Yes, oh, yes.

Mrs. JOHNSON. And that very specific approach?

Ambassador BARSHEFSKY. This is highly, highly specific. If you could visualize in your own mind a grid with commitments running along the left-hand side and on top dates, year by year by year, and every box is filled in on the grid. What is it that is supposed to be done in what time frame, that is how the entire agreement looks.

Mrs. JOHNSON. That is very, very important and I thank you for your good work.

Mr. CRANE. Next is Mr. Levin, oh, excuse me, Mr. Ramstad is next, then Mr. Levin.

Mr. RAMSTAD. Thank you, Mr. Chairman.

Ambassador Barshefsky, I, too, want to join in all the laudatory things that have been said about you that are well deserved and your leadership on these absolutely critical trade issues is very much appreciated. I think there is no question you have been a real star in this administration and along with your leadership you have worked—or as part of your leadership—in a bipartisan, pragmatic, common-sense way and it has been a pleasure to work with you on these critical issues.

I just want to digress for a minute, if I may, Ambassador, with reference to your exchange earlier with Chairman Crane. I am certainly glad to hear that you are working diligently to resolve the last-minute switch on the part of the Chinese with respect to fertilizer and that you have gotten a political commitment from them to address the issue before China joins the WTO.

Ambassador BARSHEFSKY. Yes.

Mr. RAMSTAD. I know representatives from Cargill and the Fertilizer Institute will go more in-depth on this issue in the later panels. But I want to just express my strong support for your efforts to reach an agreement to improve our access into the Chinese markets. Certainly you realize the importance of this, I know.

It is our fourth-largest, the United States's fourth-largest export and, of course, China consumes 30 percent of the world's fertilizer. So, thank you, for your work on this and your recognition of this problem and that it needs to be turned around.

I now want to shift gears. By the way I have to say that I was somewhat amused by your comment as to the cumulative intelligence quotient in this room. I think your summary statement was a bit prejudiced. You are looking forward. If you turned around there is a lot of collective wisdom certainly in this room and I am not in any way disparaging. We have a very, very bright President but there is a lot of good wisdom in this room and I think we have to all work together as Americans on these trade issues, as you have long recognized.

Ambassador BARSHEFSKY. I agree.

Mr. RAMSTAD. Let me just state another obvious factor. I think there is so much—when it comes to these trade issues—so much dogma, so much mythology and even worse, falsehoods, that are perpetrated by some of the opponents and perhaps sometimes in good faith, I am not questioning that. However, I think we need to as soon as these myths, some of this dogma floated in an attempt, in this instance, kill permanent NTR with China and WTO accession, I think we need to explain the facts. And just yesterday on the International Campaign for Tibet website, just yesterday the following statement and I am quoting: "The Administration admits that permanent normal trade relations is not legally necessary for satisfying international trade agreements."

Ambassador Barshefsky, my question to you, true or false?

Ambassador BARSHEFSKY. China can enter the WTO without permanent normal trade relations but the difficulty is that if they do, recognizing—and this is true—that we are the only country in the world that does not already give China permanent normal trade relations, their entering the WTO may end up denying to us the very benefits we negotiated. PNTR is the only way to guarantee that we have the benefit of the bargain here.

Mr. RAMSTAD. So, in the most highly technical sense of the word, legal necessity, it could be argued in the academic theater perhaps—

Ambassador BARSHEFSKY. It is legally necessary to give PNTR to China if we wish to guarantee the benefits to us of the agreement we negotiated.

Mr. RAMSTAD. Very, very well stated. And I think we need to clarify the record when these false accusations are made. Throughout this debate I think all of us who understand the importance of this issue to growing our economy, to creating jobs, to continuing to be an economic superpower we must do that. And by the way I applaud the Business Coalition for U.S./China Trade, Bob Papp, who has long been the leader of this important coalition, for their efforts in correcting the record on China trade issues. I think it behooves all of us to explain the facts when certain misleading statements are forthcoming.

Ambassador BARSHEFSKY. I agree.

Mr. RAMSTAD. Again, I want to thank you for your leadership. It is a pleasure to work with you, and I look forward to working with you in the future.

Ambassador BARSHEFSKY. Thank you.

Mr. RAMSTAD. I yield back the balance of my time.

Mr. CRANE. Thank you.

Mr. Levin?

Mr. LEVIN. Well, my comment, Mr. Ramstad, follows right on yours. It seems to me that we need to be wary of dogma on all sides on trade issues. Polarization has often suffocated intelligent, informed, open discussion. Strike informed and intelligent, open discussion.

And I want to pick up Mr. Rangel's question because I think it was a very salient one. I want to make clear, I have been to New York and I know where 42nd Street is but what he asked relates to most main streets in America. So, to simply say, it is New York, that is wrong. His question about the impact relates to virtually every street in America.

So, I want to follow through on that. And in terms of dogma, for people to say this trade agreement is win-win-win and there will be no losers, in my judgment, isn't credible. Any major trade agreement is likely to have winners and losers by definition; trade and economics are that complex. Now, I think you were referring to, in terms of tariffs and the like, that all the action is on their side and none is on ours. And that is true enough. But realistically one of the main impacts of this will relate to investment. One of the problems with investment in China today is that the rule of law is weak. When I was there, there were stories about this lawyer who was thrown into jail—

Ambassador BARSHEFSKY. Yes.

Mr. LEVIN.—because he interviewed a witness alone. He didn't have a second lawyer or somebody with him. And people I talked to made it clear, including American business people, they are worried about the opaqueness of law there, right?

Ambassador BARSHEFSKY. Yes.

Mr. LEVIN. And you have bumped into that. So, we can't on the one hand say that coming into the WTO will spark China to move along in terms of the rule of law and then say it is not going to affect investment in China. I mean it will. In fact, one of its purposes is to stimulate investment or one of its results will be because American businesses will have more of a sense of security.

So, I just want to suggest then what that means is that some of the investment there will have a positive impact on American jobs and some will have a negative impact in all likelihood. Trade flows both ways. In the automotive sector I think considerable progress was made in terms of opening their market, and in terms of shipment, for example, of auto parts from here to there. We also have to recognize that auto parts can be shipped from China to the United States. And as they develop, as they become, they will become a competitor of the United States as well as a market.

And I think we ought to just advantage that head-on and to treat it as a serious issue. It is one reason I think that the Working Group on Labor's, in response to Mr. Rangel's question, pursuit of that is important. And, you know, we have been talking about this for a number of years and the President has had a consistent position the last year on pursuing this.

But also we need to talk about the surge provisions and you did in answer to Mrs. Johnson. And I guess there was not time in response to Mr. Rangel.

I think one factor is if we see that there is a major surge in a particular product, the way I think the accession provision is written, that we do have some defense. In fact, there is criticism that the President did not agree in April but there were weak anti-surge provisions and you negotiated them after April. And the reason we have anti-surge provisions is because trade flows both ways. Otherwise we wouldn't need them.

So, I want to ask you one quick question and then I will finish because I had time earlier. Now, I suggested that we write the anti-surge provisions into legislation and the reason I urged this committee to look at that is because it is going to be important how they are written and it is going to be important how much discretion the President has because to some extent the anti-surge provision and the accession agreement reflects present American law that hasn't been used very much.

So, I just wanted to ask you, if you would, to comment on the anti-surge, the suggestion that the Administration and this committee and the rest of Congress sit down and seriously discuss how we are going to embed them and how they will impact on this whole issue of our competition with this huge evolving economy that, as Mr. Rangel points out, has very, very different labor market provisions with no freedom and with a very low wage at this point.

Thanks. So, if you would comment.

Ambassador BARSHEFSKY. Yes. If I might say with respect to surge, this is an area where again we are trying to look ahead. We wanted to be sure we had strong anti-import surge mechanisms for many of the reasons that Congressman Rangel has pointed out. That is to say China will become a much more forceful competitor in the future. We are already seeing that in steel last year, as you may know. And we want to be sure that we can take action—and under this provision we will be able to for 12 years after accession—to take action against import surges to the extent they are causing market disruption in the United States.

Mr. LEVIN. Treating them, in other words, with a different standard than presently applies to—

Ambassador BARSHEFSKY. This is a much different standard than under 201 now. One, because we can take action just against China. Two, because a market disruption standard is a very low legal threshold as you know. And, third, because we have also negotiated something that was missing and caused us frankly some problems in the steel cases over the last two years and that is this. Under current WTO rules—and this was done in the Uruguay Round—countries cannot voluntarily agree to hold back on their exports to another country. These are called gray area measures, as you will recall.

This agreement allows us to, in fact, negotiate with China for decreases in their exports without having to go through a formal proceeding if the Chinese agree to do that. And I think that this is also a very important addition, again, because as Mr. Rangel and you have pointed out, China will become a much more forceful competitor in the future.

With respect to the anti-surge provision, obviously, we want to work with you and work with the Congress. We do believe we have authority under current law, under the Trade Agreements Act of 1974, to implement the provision. I would have a concern that however implemented we do so in the most expeditious manner possible so that these mechanisms take hold and can be applied from the day of accession and we are obviously pleased to work with you on that.

Mr. LEVIN. Just quickly. It is not clear, I think, there is the administrative authority but there is also an advantage to embedding them in legislation.

Chairman ARCHER [presiding]. Mr. Levin, your time has expired.

Mr. LEVIN. After legislation I was going to put a period.

Chairman ARCHER. Okay.

Mr. LEVIN. Thank you.

Chairman ARCHER. Ms. Dunn.

Ms. DUNN. Thank you, Mr. Chairman.

Ambassador, thank you for spending as much time with us as you have been lately. It is very useful for us to really understand what we are talking about. The United States/China trade agreement permits foreign investors to own up to 50 percent of a telecom venture in China. When you had previously negotiated this treaty last April it said that we could own up to 51 percent. So, that is really a difference between equal partners versus controlling interest.

What do you think the implications are going to be to allowing joint ownership. For instance, Internet service provider companies as opposed to controlling ownership.

Ambassador BARSHEFSKY. I don't think at the end of the day there will be too much difference. First of all, regardless of percentage joint ventures are typically done in a contractual manner between the parties and in the context of contractual joint ventures the parties can negotiate the percentage of equity ownership which could exceed the general equity rules outlined here and we have confirmed that with the Chinese leadership.

But apart from that when we undertook to rebalance some of these obligations at the Chinese request, we were always careful that we were balanced in a way that ultimately would still advantage us. So, in the case of telecom, we did four things. First of all, we made absolutely sure that Internet and satellite services were fully covered. There was some question about that from April, that has been resolved.

Second of all, we accelerate the percentage of equity participation, moved it way up, whereas, under the April agreement 49 percent wouldn't have been reached for four or five years; here it is reached in two.

And we moved up the elimination of all geographical restrictions on service providers and on investment and by doing that, of course, our companies have much greater access to the whole country under this reformulated approach than they would have had from the April agreement.

Ms. DUNN. Good, good. Thank you.

I want to ask you a question about a couple of things that have happened in China recently. The Chinese Government has done some things that are of concern to the high-tech market. In October of last year, China's State Council approved regulations to prohibit sales of foreign-produced encryption technology—

Ambassador BARSHEFSKY. Yes.

Mr. DUNN.—by domestic end-users in China. And, in addition, the new rule would require foreign individuals or organizations that used encryption products or equipment containing encryption technology in China to report to the Chinese Government for approval. There is some concern about this.

Last month China published new regulations to, as they said, control State secrets on the Internet and Internet content providers are a little worried about this. I wonder if there is some concern that you see as the proliferation of the Internet, which I believe to be a very liberating force, moves to China. Do you think the new regulations are going to cause a problem? Are they an ominous sign for the growth of the Internet in China?

Ambassador BARSHEFSKY. I think certainly the Chinese Government approaches the Internet with great trepidation but it can't stop it. And ultimately the technology, I believe, will have its day.

With respect to content regulations there is nothing new there. This has always been China's rule with respect to the Internet, that is no dissemination of State secrets. The phrase, State secrets, is vaguely and broadly defined. It is obviously a concern but our

Internet providers have lived with this now for some time and I think are able to handle it sufficiently well.

The issue of encryption is actually a more serious issue. We are very concerned about this. I have already raised it with the Chinese Vice Premier who is in charge of this area. I had a team out in China two weeks ago. They raised this issue again. I have had the Chinese Ambassador in on this issue. Right now the regulations are of a provisional nature. They are not actually being enforced. And we will do everything that we can to see that these regulations are altered so as not to create the kind of problem that is presented.

May I correct my earlier answer to you just to be sure that I was understood in the way in which I intended to say it. And that is on telecom the 50 percent limitation won't change on equity investment but what can be negotiated is control. That is to say, for example, management control, which is at the heart of the issue. And that is subject to individual negotiation regardless of the percent of equity ownership in the company, itself.

Chairman ARCHER. The gentlelady's time has expired.

The Chair will alert members that we still have two large panels ahead of us today and, as a result of that, the Chair is going to strictly enforce the five-minute rule from now on and ask the cooperation of members in keeping their comments and permitting answers also to come within the five minutes.

Mr. Collins.

Mr. COLLINS. Thank you, Mr. Chairman.

Ambassador, I appreciate your presentation here today; I thought it was very thorough and very good. I have some concern in one area that I don't think is addressed in the list of products or commodities that we have reached some concessions in and that is in the area of textiles.

I do know we have the 1997 textile agreement which was helpful to the U.S. But I, just as a word of caution, I am afraid that is one area that we could have some further loss in if we are not careful with our continuing negotiations and I know that you are very much aware of this.

I do find encouragement in other areas that you were able to negotiate and I think it will be very beneficial to us in the long-run and I appreciate your presence here today.

Ambassador BARSHEFSKY. Thank you.

Chairman ARCHER. Mr. Cardin.

Mr. CARDIN. Thank you, Mr. Chairman.

Madam Ambassador, I am trying to put myself in the shoes of the steelworkers in Baltimore or the auto workers or the bio-tech workers or the truck drivers as they listen to this hearing they may be reminded of prior hearings in this committee. A year ago, two years ago, three years ago, four years ago when we held hearings on whether we should extend NTR or MFN to China. And at that time I vividly recall and I am sure they do also, statements made that by extending the NTR to China that would open up markets for American companies and it would be good for our economy and it would create more job opportunities here in the United States.

So, I am wondering using the Chairman's word and I understand that this is a lopsided agreement that you negotiated where it was unilateral concessions made by China, but would it be correct to say that prior to this the United States unilaterally disarmed by giving China access to our market, by not challenging that access on a yearly basis when the tariff situation was radically for U.S. manufacturers and producers in order to get into the China market?

So, did we make a mistake in prior years by extending normal trade relations to China without negotiating a more level playing field for American manufacturers, producers and farmers?

Ambassador BARSHEFSKY. I don't think that we made a mistake. I think to have denied annual NTR would have been to breach entirely the economic relationship with China with very far-reaching consequences including most likely devastation to the Hong Kong economy which depends very heavily on the out-flow of trade from China to points outside of Asia and, indeed, within Asia. And as you, of course, know quite well, people like Martin Lee, who is one of the chief democracy advocates in Hong Kong, had urged that NTR be granted to China in all those years.

Mr. CARDIN. I am going to interrupt you only because of the five-minute rule.

Ambassador BARSHEFSKY. Yes.

Mr. CARDIN. I will give you as much time as we have for the five minutes but I want to make sure we focus on the issues. I guess my concern is why didn't we negotiate before now for a bilateral agreement with China that would reduce their barriers so that U.S. manufacturers could get access? Why did we have to wait until the WTO issue became at stake? We allowed China full access to our markets.

Ambassador BARSHEFSKY. We have been negotiating this agreement in this administration for seven years.

Mr. CARDIN. With no results, though.

Ambassador BARSHEFSKY. Until now. It has been very difficult because of the extent and nature of reform that would be required by China.

Mr. CARDIN. Maybe if China thought that they would lose access to our market that we may have been able to do better during that period of time.

Ambassador BARSHEFSKY. I doubt it. I doubt it because I don't think there would have been—I think it would have been hard for China to negotiate with us under those circumstances. I think you would have strengthened the hardliners in China in the interim who would have viewed the United States as an enemy of China or that China should be an enemy of the United States. I don't think that would have helped trade negotiations in any particular way.

Mr. CARDIN. I appreciate that. Just the observation is that if there is such a dependency now by China on U.S. consumers, a $70-billion trade deficit, whatever it is, they need our market. And we want open markets. We want to have access to China by our companies. I agree with what you have negotiated.

It just seems to me that if we had an 80 percent tariff on automobiles, for example, or we couldn't open up a dealership without having a partner from China and all these other things that you have now been able to negotiate, why didn't we do some of this earlier?

Ambassador BARSHEFSKY. We have been trying. It is very difficult because you are asking a regime that, since the 1950s, has tried to keep things in as status quo a position as possible, despite a variety of economic reform, to fundamentally alter the way in which business is done in China and to fundamentally alter the competitive market forces in China.

All I am saying is we have pushed very hard over all these years since the President took office at his direction, and it is only now that Chinese reformers have somewhat of an upper hand in China that we finally have the agreement that we have reached.

Mr. CARDIN. Thank you. And in my last 15 seconds let me just underscore the point, I think Mr. Levin's comment about adding more than just trusting China is absolutely essential if you are going to get broad-based support for this initiative. It is lop-sided, this agreement, I agree with you, but some of us want to make sure that, in fact, American producers and manufacturers get advantaged of these market conditions.

Ambassador BARSHEFSKY. I agree with you fully on that.

Mr. CARDIN. Thank you, Ma'am.

Chairman ARCHER. Mr. Portman.

Mr. PORTMAN. Thank you, Mr. Chairman.

And, Ambassador, thank you for being here this morning, now this afternoon, and for your continuous briefings of the Committee on a tough issue.

China presents an enormous challenge to us. I think many points Mr. Cardin made regarding trade barriers and the trade deficit and so on are valid ones. China continues to have the largest State-owned economy in the world. China continues to have an approach to markets which is closer to socialism than it is to capitalism. It is very difficult for us to imagine a rule of law evolving even in the next decade in a way that would enable us to be able to have confidence that U.S. or multilateral rules were being enforced. They are just not there yet.

These facts make China very hard to deal with and the enormous market and the enormous market power that it has also makes China very hard to deal with. But I think they mean we cannot block Chinese entry into the WTO because it is a rules-based organization and it is not so much the initial trade concessions, which are very important to many of our districts, but it is because WTO membership has the potential to accelerate China's internal reforms which need acceleration and to increase some leverage by imposing some new, now international, rules on China. So, I believe that we cannot in good faith block entry into the WTO which would in essence be the road we are taking.

But at the same time I think what Mr. Levin said earlier is accurate. We have to do a lot more than just say, yes. We have some leverage here. There was discussion about institutional reform of the WTO dispute settlement process—that is absolutely critical—enforcement, the anti-surge provisions and so on.

And short of changing the terms of the agreement which the Chairman accurately stated was impossible to do at this point without going back to the bargaining table, there is a lot more, I think, we can and should do. This PNTR vote is in essence the vote that gives China an enormous benefit. Yes, we get some initial concessions but the reason China wants it so much is because it will help the Chinese economy tremendously.

You said earlier in response to Mr. Rangel and I think I am quoting that you believe this does not encourage investment in China. I would disagree with that. I think this agreement will encourage investment in China. And I think that is a potential problem for us.

You also said that the agreement is—and I quote—“fully enforceable”. And, yes, fully enforceable maybe in strict legal terms is accurate but I look at the problems we have had with some of our other trading partners in the context of WTO and I think that overstates it. I worry that without getting some additional guarantees and without adding to the rules-based regime that is already there some more strict compliance provisions that the U.S. is going to have a very hard time with China responding to noncompliance. I hope I am wrong.

And it may not surprise you that I have that concern. And I will ask you a hypothetical which may not surprise you either. Let us say a U.S. multinational company’s exports to China are blocked and they are blocked by quotas in a licensing scheme, which I think is not at all out of the question over the next several years even.

Let us say, for instance, that half of that U.S. multinational’s exports markets were taken away. And let us say instead there was preference given to a Hong Kong-based multinational company and there are many that engage in the same businesses that U.S. companies and businesses engage in. And increasingly these global companies are dictating the terms of economic development here and our future economic growth is dependent on these multinational or global companies. Let us say that the damage is in the hundreds of millions of dollars. What would the U.S. response be? What could we do under the WTO?

Ambassador BARSHEFSKY. Well, I take it that you—I think the facts that you have posited are fairly clearly the facts with respect to bananas and I would say this, that, first of all, we would do what we did in that case, which is to take China to dispute settlement and we would undoubtedly win.

Mr. PORTMAN. Let us say—our time is limited—let us say that we not only win but we win big. Let us say that we have, you know, over 20 violations, more than any other case in history, and that we are on the right side, clearly on the merits.

Ambassador BARSHEFSKY. Hmm-hmm.

Mr. PORTMAN. And that there is no question based on a dispute panel that the United States is in the right. Then what do we do?

Ambassador BARSHEFSKY. Then if China didn’t comply—and I don’t think one should necessarily assume China wouldn’t comply but—if China did not comply we would have the right to retaliate and we would do our best to retaliate in a manner that would force compliance. If it didn’t force compliance, I think we would try and look at all available means to see if there were a way to get the foreign country at issue to comply.

And, if not, the retaliation, whether in the hundreds of millions of dollars or more, would remain in effect.

Mr. PORTMAN. I would just posit again as was said earlier by Mr. Levin, this is very complicated stuff and there are no easy answers and although I think that WTO membership by China is something that we cannot block for all the reasons that I stated, I think we cannot go into this blindly and we cannot go into it thinking that this is going to work. It hasn't worked with trading partners with whom we have a lot more in common, with whom we don't have these challenges. And I would hope that we use this leverage to try to enhance our ability to enforce agreements.

Ambassador BARSHEFSKY. Mr. Chairman, may I have one minute to respond to just one other point that the Congressman raised?

Chairman ARCHER. Okay. But—

Mr. PORTMAN. By the way I didn't raise bananas, you did.

Ambassador BARSHEFSKY. No, no, no. I wanted to clarify one thing.

Chairman ARCHER. We do have a long, long day and I would— yes, you may have a minute.

Ambassador BARSHEFSKY. Thank you.

And that is simply this, I want to clarify my response to Mr. Rangel as follows: Certainly if China becomes a more reliable trading partner one might envision that foreign investment into China would increase, although it is already an important site, it is the site after the U.S. and Europe for inward direct investment already, even with an arbitrary trade regime.

But my point was actually slightly different which is, we did not negotiate in this agreement relaxation of China's investment rules. There are many corporations that wanted us to. We did not. And we didn't because the focus of this agreement is designed, as much as possible, to be on exports from the United States, not on the moving of production facilities to China from the United States. That may happen as happens when U.S. companies locate in Europe and elsewhere, as well, but my comment to Mr. Rangel was designed not to indicate that conditions may not change in China or that it may not become a more desirable investment environment because of this or other agreements, but merely that we did not in this agreement negotiate any rules that relax investment regulations in China.

Mr. PORTMAN. I understand that. I just think again it would be inaccurate to say that China's accession to WTO which was the context that I heard it in is not going to encourage investment. I think it will encourage investment in China and we need to go into that with our eyes wide open.

Ambassador BARSHEFSKY. I just took it—

Chairman ARCHER. The Chair is going to have to stop this colloquy otherwise it can go back and forth for another five minutes.

And in fairness to the witnesses that are waiting in the wings, Mr. Hulshof.

Mr. HULSHOF. I yield my time.

Chairman ARCHER. The gentleman yields his time.

Mr. McInnis.

Mr. MCINNIS. Thank you, Mr. Chairman.

Help me through this now. In the WTO there is a court, right, for the legal provisions or violations of the treaty or enforcement; is that correct?

Ambassador BARSHEFSKY. Yes. There are dispute settlement panels in the WTO. It is not a court but it operates in sort of a quasi-juridical manner.

Mr. MCINNIS. Okay. Is there any way that China, especially—it seems to me that once we take them off the one-year status and give them permanent status that they are off probation, so to speak—is there any way that China can utilize the remedial process of the WTO to in any way impair the relationships that exist trading or otherwise between the United States and Taiwan?

Ambassador BARSHEFSKY. No.

Mr. MCINNIS. You are confident of that?

Ambassador BARSHEFSKY. Yes.

Mr. MCINNIS. No further questions, Mr. Chairman.

Chairman ARCHER. Does the gentleman yield back his time?

Mr. MCINNIS. That is correct, Mr. Chairman.

Chairman ARCHER. Mr. McDermott.

Is he here?

[No response.]

Chairman ARCHER. Mr. Kleczka.

Mr. KLECZKA. I thought the Ambassador would say, is that your final answer?

Ambassador BARSHEFSKY. Pardon me, sir?

Mr. KLECZKA. In answer to the previous questioner I thought the way to frame it was, is that your final answer?

Ambassador BARSHEFSKY. Yes.

Mr. KLECZKA. You don't watch the show.

Ambassador BARSHEFSKY. Now, I get it. [Laughter.]

Mr. KLECZKA. Thirty million of us do, you don't.

I have a couple of quick questions and we are going to ask for some quick answers. First of all, what action has to take place for China to get into the WTO? At what point does this happen? Quickly.

Ambassador BARSHEFSKY. In terms of formal process, China finishes bilaterally with its other trading partners, we finish a rules discussion in Geneva, then China's working party on its accession with its 30 or 35 major trading partners all say, okay, we are done negotiating, it is finished. Then that is taken the general body of the WTO, typically approved by acclamation. China then ratifies the agreement as agreed by the general body of the WTO and 30 days later they are in.

Mr. KLECZKA. So, it is no act of this Congress that will enable that China becomes a member of the WTO?

Ambassador BARSHEFSKY. Yes.

Mr. KLECZKA. So, that is number one. Number two, there are those who say we still have to have the annual review because we have to monitor prison labor, environmental, and, so, the option they claim before us would be to continue our relations with China on an annual basis versus permanent.

What would be the effect of China and the WTO if this Congress would enact the annual normal trade relations versus the permanent?

Ambassador BARSHEFSKY. We cannot guarantee under that circumstance that we will have the benefits of the agreement that we negotiated. China would have no obligation to apply to us our own agreement although they would have an obligation to apply it to everybody else in the world. That would be a ridiculous outcome for the United States.

Mr. KLECZKA. So, those who are saying that Congress should not grant permanent normal trading relations know full well at that point this country could not avail themselves and the businesses could not avail themselves to the agreement that you struck with the Chinese Government?

Ambassador BARSHEFSKY. Yes. In other words, the risk to us is that China would not apply to us our own agreement and they would have a perfect right not to do that.

Mr. KLECZKA. And using autos as an example, if, in fact, this Congress would not grant permanent trading status to China they, in fact, could continue their tariff of 100 percent on automobiles that we ship there, however, they would give the current negotiated tariff of 25 percent to all other trading partners?

Ambassador BARSHEFSKY. We may have an argument under a preexisting 1979 agreement with China that China would have to give us the advantage of tariff reductions but we would have no such claim in the case of trading rights, distribution, the ability to service in China, setting up dealerships in China, we would have no such claims.

Mr. KLECZKA. Okay. Now, I have some feel for those who say that we still must keep a short leash on this agreement know full well that we have seen China and some of their practices in the past years. What can we do either in the permanent trade legislation that we will have before us or in existing WTO legislation to provide for a more frequent review than what is called for today under the trade policy review mechanism?

Ambassador BARSHEFSKY. I think that Congressman Levin had some very, very good suggestions in that regard. In other words, certainly we are going to want to be able to have a very strict monitoring regime on China's adherence to its commitments. I think this is essential and China needs to know we are watching that closely.

Mr. KLECZKA. Monitoring and adherence and sanctions are 27 different things?

Ambassador BARSHEFSKY. Yes. These are all different things but I think that Congressman Levin has a number of very positive suggestions in the opening statement that he made in that regard.

Mr. KLECZKA. Can the TPRM be moved to an annual review-type process?

Ambassador BARSHEFSKY. I don't know the answer to that. I will tell you because we have been subjected to a TPRM, as are all countries, this is massively time-consuming for a foreign country. It takes us months and months to work through the TPRM review. To be absolutely frank, I can't imagine having to go through that every year.

Mr. KLECZKA. Okay. Mr. Chairman, one final question of you. Is there a timetable when legislation will come before the Committee relative to granting permanent normal trade relations?

Chairman ARCHER. There is currently no specific timetable. We will be working with the Administration to seek the best time for success.

Mr. KLECZKA. Thank you.

Chairman ARCHER. Mr. Nussle.

Mr. NUSSLE. Thank you, Mr. Chairman and thank you again, Madam Ambassador. I share, as Mr. Portman did, the concerns and the compliments of Mr. Levin's opening comment. I think he summed up a lot of the concerns and a lot of the compliments in his statement. So, I would associate myself with what has been said.

I have three questions. One, as I understand it, because there are so many customers in China, last year's increase of pork consumption in China equalled the total output of pork production for Iowa in one year. Just their increase in what they eat. And, yet, we sold them no pork chops. What will happen under this agreement with regard to pork?

Ambassador BARSHEFSKY. There has been a ban on meat, as you may know, into China. China has agreed to lift the ban. The tariffs will come way down. And I think we should see a significant change in the current practice.

Mr. NUSSLE. The second has to do with what Mr. Portman was suggesting. He spoke about a particular case that has been brought through the dispute mechanism procedure. One concern that I have again with regard to enforcement—and you mentioned that this if fully enforceable, and I am not quibbling with that at all, based on sound science—but these are all things, as Mr. Portman said, we have also had with European Union and they have also used political non-tariff barriers as well.

When you say sound science, my understanding is that the European Union does not have a similar sound science procedure comparable to what we have in the United States, FDA, et cetera.

Ambassador BARSHEFSKY. Correct.

Mr. NUSSLE. What do the Chinese have? Is it comparable to anything else we have experienced in the past with other trading partners?

Ambassador BARSHEFSKY. The difficulty with Europe has been not in their scientific analysis. Their scientists agree with our scientists. It has been that the member States then vote on a political basis on whether they want to accept the science or not. Certainly we have to watch for that with respect to the Chinese regime. I think there is no question about that. But I do think we will have established a much stronger basis on which to work with them.

Let me also say in every science-based case that we have challenged in the WTO, that is to say where sound science was not utilized, we have won.

Mr. NUSSLE. And then finally I sent you a letter in December having to do with this particular agreement and my understanding is that it is very favorable to auto financing companies.

Ambassador BARSHEFSKY. Yes.

Mr. NUSSLE. However it is not real clear on more of the finance for agricultural equipment. And I am wondering, in particular, if you have had an opportunity to review that and are able to respond? It isn't clear what is your opinion about whether or not these companies would be included in the agreement?

Ambassador BARSHEFSKY. Let me take a look at that. I can't give you a direct answer at this point. The provision that we negotiated with respect to consumer financing was specifically auto-related and that had been specifically requested by the auto industry not so much at the bank level, the issue was non-bank financial institutions.

And, so, what was negotiated for autos was an agreement that non-bank financial institutions, like GMAC Credit, could provide financing. I would have to check with Treasury whether bank financing of agricultural equipment is available and I will get back to you on that.

Mr. NUSSLE. Well, there are some companies that do their own financing similar to GMAC.

Ambassador BARSHEFSKY. Right. I will check with the Treasury Department and we will get back to you.

Mr. NUSSLE. If you would, I would appreciate that.

Ambassador BARSHEFSKY. Yes.

Mr. NUSSLE. Thank you, Mr. Chairman.

Chairman ARCHER. Mr. Jefferson.

Mr. JEFFERSON. Thank you, Mr. Chairman.

Good afternoon, now.

I want to ask—I was out a little while so I hope I am not asking anything that has already been covered. We have talked a lot about how the provisions we are discussing here will benefit business interests and Mr. Rangel asked questions about labor interests. I want to ask about customers. And ask you to tell me how U.S. customers will see themselves benefitting from what we do here, assuming we pass permanent normal trade relations?

Ambassador BARSHEFSKY. Well, I think the situation for U.S. customers is relatively unchanged. That is it is the position of the Administration that customers benefit tremendously from essentially an open import market here because you stretch the value of the dollar, competitive pressure is high in the U.S. market, prices stay low, inflation stays low and that is all to the benefit of customers and working people not only in the short run but in the longer run especially if they look to finance a home purchase and so on, you want inflation to stay low, you would like to have lower interest rates so on and so forth.

The agreement doesn't alter the import mix except that to the extent that Chinese imports are surging in any particular area we are able to put a cap on that and, thus, preserve U.S. jobs, and that similar to our current safeguard law only, frankly, more effective a remedy in this particular case because of the way it is structured and the legal standards that would apply.

So, I think for customers you have the general benefit of imports which in the case of China remain unchanged by this agreement. That is to say we are not altering our trade regime one iota for China. But in the case of customers and working people to the extent there are surges not justified by increases in demand here we are able to put a stop to that and currently we are not able to do that very effectively.

Mr. JEFFERSON. Ms. Pelosi makes the argument that we are losing leverage when we pass this permanent normal trading relations status. She says that if we ever year have to go back and renew and renew and keep the Chinese Government's feet to the fire that in the long run it will be better economically, better in every other way we can think of, human relations and so on, human rights.

Is she right about that?

Ambassador BARSHEFSKY. I disagree entirely. If the argument is human rights in China have not improved then of what benefit has the annual review been. If the argument is that human rights in China have improved then why would one continue the annual review? Why not provide permanent NTR. I think the greatest leverage we have is by bringing China into a rules-based system where it isn't merely the United States but 134 other countries who want the same level of commitment from China on the question of economic reform.

And I think it is that kind of reform that has the possibility of important spillover effects, particularly as one looks at the development of rule of law in China. But I don't believe one can argue that the annual policy we have had for over 20 years has been overly effective with respect to the question of human rights and with respect to the question of religious freedom.

Mr. JEFFERSON. So, this effort doesn't abandon the Government's pursuit of these outcomes relating to human rights and the rest. It is simply in further pursuit of what the Administration has called a policy that doesn't tie these legitimate U.S. concerns together, particularly ties them into the trading regimes.

Ambassador BARSHEFSKY. Yes.

Mr. JEFFERSON. Now, let me ask you about a bill that has been near and dear to my heart after CBI.

Ambassador BARSHEFSKY. Yes.

Mr. JEFFERSON. I certainly hope that as we put the all-out effort on PNTR that we don't have Africa in the dust on this whole question. I look at the textile provisions as well as I can in the China portfolio package, I guess is what you would call it, and it seems to adopt our present bilateral agreement with China on textiles.

Ambassador BARSHEFSKY. Yes.

Mr. JEFFERSON. Which has an extension, it takes it through 2008, whereas normally the regime ends in 2005. And my question was, we don't do anything to change the regime, do we? And I was hoping that perhaps it did so that some of these issues about China transshipments and all the other questions that we talk about relating to Africa might be in some way or the other affected by what we do here.

And, so, my question really is, even though it doesn't appear to me that this particular protocol is changed in any regard, whether by bringing China into the WTO and then the rules that relate to our operating in that context, will give us less concern, ought to give less concern, though I don't have any now and we shouldn't have much because we have stiffened the Africa bill with so many rules and so many transshipment enforcement measures, unlike any other bill we have done in this Committee, but will this help to assuage the concerns of some of those who worry that China will be a runaway transshipment outfit relating to Africa by doing what you are asking us to do here and what the Administration has worked out?

Ambassador BARSHEFSKY. I do think that the China bilateral agreement is a very strong one because it does have strict rules against circumvention, against transshipment including being able to triple-charge China's quotas if they transship. And I do think the U.S. Customs Service has a much more rigorous program with respect to transshipment, more personnel, greater care, factory inspections in the foreign country, in this case in China, a well as Hong Kong and elsewhere. I think we have a vastly improved regime. That doesn't mean transshipment from China doesn't occur but I think we have a better handle on it now than say four or five years ago when issues of transshipment were called to our attention.

My hope on the Africa and CBI bills is that they come up early and that they pass, which is to say my hope is for an early conference on these bills. I think that as you know these bills remain a priority for the President. I just had a meeting yesterday with a bunch of supporters of the African Growth and Opportunity Act so I am, I have been and remain very focused on that bill and on the CBI legislation. These are both very important pieces of legislation that ought to pass and I think in both with respect to textiles we ought to have a high degree of confidence that the bills do as much as is possible with respect to claims of transshipment and concerns about transshipment and I think that the administration feels quite comfortable that we will have in these bills important economic gains for ourselves and for the countries involved, and we will not see because of them an increase in transshipment problems.

Chairman ARCHER. The gentleman's time has expired.

Madam Ambassador, you commented on something that causes me to say that the President has taken a position in favor of the African Free Trade bill.

Ambassador BARSHEFSKY. Yes.

Chairman ARCHER. He has also taken a position in favor of permanent NTR for China. And, yet, word dribbles out of the White House that the business community and agriculture is being told it is their responsibility to deliver all the Democrat votes. That will not work. And the message should be very clear to the White House that the President needs to get out front, full bore, with aggressive leadership for us to be able to develop the bipartisan votes that are going to be necessary to pass this permanent NTR for China.

And I see you nodding your head. That won't show up in the record but—

Ambassador BARSHEFSKY. I was going to say that the President has already met with a number of members of Congress, of both parties, and will continue to do so.

Chairman ARCHER. Thank you.

Mr. LEVIN. Mr. Chairman, will you yield for just 10 seconds?

Chairman ARCHER. Mr. Levin. I yield for 10 seconds.

Mr. LEVIN. I don't think that anybody can deliver votes. I think we will tackle the issues and that is how the votes will be influenced and determined.

Chairman ARCHER. Mr. Lewis of Kentucky.

The Chair would like very much, if possible, to conclude Ambassador Barshefsky's testimony before we go to vote, if that is at all possible. It may not be but perhaps members can shorten their inquiries and we can get that done so she will not have to come back.

Mr. Lewis.

Mr. LEWIS OF KENTUCKY. Thank you, Mr. Chairman.

Ambassador, although the tariff rates have fallen on tobacco, tobacco was accepted along with fertilizer in regard to trading rights. I know that you were going to do some more negotiations in regard to fertilizer which I am very pleased about. But what about tobacco?

Ambassador BARSHEFSKY. I don't see the trading right situation change with respect to tobacco. This, the issue of tobacco from China's point of view has long been off the table. You know that is a State monopoly. It is a complicated situation in China. So, I will be honest with you, I don't see that situation changing.

With respect to fertilizers we were given a commitment at the political level in China that they would work with us to resolve the problem.

Mr. LEWIS OF KENTUCKY. I, being from Kentucky, our tobacco farmers have just experienced a 45 percent decrease in their quota, 30 last year. They really need some open markets and if there would be any way of readdressing this issue with the Chinese, I am sure that they would greatly appreciate it. Thank you.

Ambassador BARSHEFSKY. Thank you.

Chairman ARCHER. Mr. Neal.

Mr. NEAL. Thank you, Mr. Chairman.

Madam Ambassador, just a couple of quick questions. Could you cite for me, considering that everybody here is really antsy about nonperformance by the Chinese, some actions the Chinese happen to be taking right now to implement this agreement internally?

Ambassador BARSHEFSKY. Certainly they have formed committees internally among the agencies in China with respect to implementation. They have sent out their top level officials, as we understand it, to many of the provincial governors and mayors making clear what the requirements would entail. They have had meetings State-owned enterprises to make clear what they would have to do in order to comply with the agreements.

So, we have seen very substantial activity, actually over the last five or six months, not just now, but over the last five or six months, even while they were not negotiating with us because of the accidental bombing of their embassy in Belgrade, there were very substantial high-level meetings; that is to say meetings attended by high level officials in the Chinese Government all across the country building support for accession but also alerting those in power as to what would be required in order to comply.

Mr. NEAL. Are they on track?

Ambassador BARSHEFSKY. I think so. I think so.

Mr. NEAL. How much more do they have to do?

Ambassador BARSHEFSKY. It is going to be a continuing process. This will be a never-ending process as it is, to be frank, with most countries.

Mr. NEAL. Okay. So, clearly, that is one of the issues here as you can tell from members questions.

Ambassador BARSHEFSKY. Yes, of course.

Mr. NEAL. The whole notion of nonperformance is a big issue.

Ambassador BARSHEFSKY. Of course. I understand that which is why we negotiated so many different kinds of enforcement mechanisms in the agreement. It is why we negotiated rules with such specificity, unusual for agreements of this nature but we wanted to be sure China knew exactly what it had to do and by when. It is why the President has asked for substantially increased funding for monitoring and enforcement activities for USTR, Commerce, USDA and other agencies in his budget request that just came up here last week. And it is why we do have substantial interest in a number of the ideas that Congressman Levin put forward.

Mr. NEAL. Thank you.

Ambassador BARSHEFSKY. Thank you.

Chairman ARCHER. Mr. Becerra.

Mr. BECERRA. Thank you, Mr. Chairman.

Ambassador, thank you, again for being with us. I want to compliment you one more time on the work that you and your team have done in trying to negotiate with China. They are tough bargainers and certainly you have proven that you are as well.

Ambassador BARSHEFSKY. Thank you.

Mr. BECERRA. Let me also urge that you heed the words of Mr. Levin as well and what he said earlier in his opening statement and in some of his questions. I think that he is on to something and certainly I think the sooner we are able to come to some agreement that it could be a win-win but there needs to be some discussion about how we get to that win-win situation. I think that would be helpful.

What Mr. Neal asked deals with part of the questions that I would have asked so I will avoid going into that other than to say that implementation and enforcement, obviously, is very important to many of us.

Ambassador BARSHEFSKY. Key.

Mr. BECERRA. TRIPS and TRIMS and all the other agreements we are really interested in seeing how we will get compliance and performance from China.

Ambassador BARSHEFSKY. Yes.

Mr. BECERRA. Let me spend just a little time asking you go to through with me this argument that we cannot or that we can do an annual NTR versus the permanent because I think it is more a political argument made that we cannot live with anything less than a permanent NTR which may ultimately be important enough to cause us to have to go towards a permanent if we find no other way to do this. But why not run the course of the annual NTR as some are proposing? Give me the explanation why it is that we cannot do that if you run it down to its logical conclusion?

Ambassador BARSHEFSKY. This is a legal issue. It is not a political issue except obviously politically not providing China permanent NTR I think is a substantial problem as we have indicated before in testimony. But this is a legal issue. Under WTO rules every WTO member must grant to every other member the same rights and privileges and benefits unconditionally, unconditionally and immediately in order to have a WTO relationship with a member. In other words, in order that you can guarantee the benefits will flow from what you have negotiated.

Mr. BECERRA. So, those who say you can do an annual say unconditionally for that period of time, for that year, we have granted China—

Ambassador BARSHEFSKY. That is not unconditional in the meaning of WTO rules. Unconditional in WTO rules doesn't mean periodically unconditional. It means unconditional.

Mr. BECERRA. So, the way you frame it then or the way you think the Chinese would frame it is they would go back to the base agreements and say that the fact that every year you have to come back means there is a condition on that NTR status.

Ambassador BARSHEFSKY. Correct. It is fundamental in the WTO that no country can be treated differently from any other country with respect to its import rights. We would be treating China differently from the other 135 members of the WTO. This is a fundamental violation.

Mr. BECERRA. And the treatment that would be different is the fact that there would be no certainty or predictability—

Ambassador BARSHEFSKY. Correct.

Mr. BECERRA.—to the status.

Ambassador BARSHEFSKY. Correct.

Mr. BECERRA. But in terms of the actual trade relationship the treatment would be the same, it is just that because there would be that aura hanging over your head that perhaps in 365 days you wouldn't have that status, the NTR status, that would be a differentiated treatment from the rest of the world.

Ambassador BARSHEFSKY. Correct. That is to say that annual NTR is not only not unconditional it is discriminatory and both of which violate fundamental precepts of the WTO.

Mr. BECERRA. Is there any room that you see to have a less than permanent, by time frame, NTR that would survive a challenge by China or anyone within the WTO framework?

Ambassador BARSHEFSKY. I don't see it. I don't see it. I don't think this is an area where nuance can override the basic illegality under WTO rules of treating different countries differently.

Mr. BECERRA. And in the President's statement that he would vote the—what is the word, the non—

Ambassador BARSHEFSKY. Nonapplication.

Mr. BECERRA.—where he would invoke the nonapplication himself if we got to the point of not granting permanent NTR, that would be for the purpose of protecting us within the WTO, itself, because otherwise if we are in the only other way to challenge China's status would be to remove ourselves completely from the WTO?

Ambassador BARSHEFSKY. No. What he means is that he is saying in that hypothetical situation if China were to enter he would consider taking an exception to MFN, if you will. That is exactly what we want to avoid because then China is under no obligation to provide us the full benefits of what we negotiated but they would be applying our agreement to everyone else in the world.

Mr. BECERRA. I will leave it there.

Thank you, Mr. Chairman.

Thank you, Madam Ambassador.

Ambassador BARSHEFSKY. Thank you.

Chairman ARCHER. Thank you, Mr. Becerra.

Mr. Doggett.

Mr. DOGGETT. Thank you, Mr. Chairman.

First, on tobacco, I am pleased it is off the table. Any effort to expand tobacco markets for tobacco farmers here would totally contradict what the President has said about this deadly product. As you know, Ambassador, I fully support the view that more international commerce means more good jobs, more high-paying jobs here in America. But that is not our sole concern, of course, and I applaud the comments that you and the President made particularly with regard to the environment out in Seattle.

Ambassador BARSHEFSKY. Yes.

Mr. DOGGETT. And I am interested in the extent to which those are being given real meaning in our trade policy. I know that first in negotiating this agreement the groups that had an opportunity to see it beforehand, other than members of Congress, included your industry advisory committees or ISACs.

Ambassador BARSHEFSKY. Yes.

Mr. DOGGETT. And that they routinely advised your agency on a wide range of matters from forest products to global warming. As you are well aware, there are industry representatives on the environmental committee but no environmental representatives on the industry committee. And this practice, I believe, a Federal court has said you could not articulate any reason why a single environmental representative on those committees would impair either our trade negotiations or the operations of the committees.

In view of that, doesn't the opposition of the trade representatives office to environmental participation on these advisory committees contradict what the President was saying about his desire to use our trade policy to leverage environmental protection up instead of down and, indeed, doesn't it contradict the interest expressed in getting the WTO to open its processes up to both environmentalists and other forms of public participation?

Ambassador BARSHEFSKY. No. And the reason is several fold. First off, we, the Commerce Department and the Justice Department have agreed to appeal the lower court ruling because we believe the lower court fundamentally misconstrued the statute under which we operate these advisory committees. This is a broader point of law which we felt had to be clarified at the appellate level.

It does not have to do with our preference whether certain members serve on certain committees or not. There is a broader point of statutory construction at issue here.

Second of all, we, as you know, have I think more than any other Administration opened up the process of private sector advisors to include environmental groups. Environmental groups sit on our top tier advisory committee, the ACTIN. We also have a trade and environment advisory committee which is statutory and we are the first Administration to do that. And obviously—

Mr. DOGGETT. I am familiar with that committee but it has not had the same level of involvement in consideration of this agreement or other agreements that the industry advisory committees have had, has it?

Ambassador BARSHEFSKY. Well, they are certainly welcome to because they are all cleared advisors and they have always had access to all of the text.

And third, let me just say that we are looking at ways to promote yet greater public input including from environmental groups. We and Commerce are working on that now. Obviously we will implement the lower court ruling. We have not asked for injunctive relief of any sort. We will proceed to implement the lower court ruling but the appeal, just to repeat, has to do with a somewhat broader point of law with respect to statutory construction.

Mr. DOGGETT. Which is the view that the Congress won't let you do it?

Ambassador BARSHEFSKY. Yes.

Mr. DOGGETT. Okay. And with looking specifically at this China agreement, with the notable exception of the reduction of environmentally harmful subsidies, which I know you have discussed before, which have an ample nonenvironmental justification as well as an environmental justification, what specifics can you point to in this particular agreement that you think will advance environmental interests?

Ambassador BARSHEFSKY. Well, with respect particularly to services market opening, we have commitments from China to open up such services as sewage, solid waste disposal, noise abatement, nature and landscape protection services, as well as energy and transportation services. I think all of these will have important side benefits.

In addition, as you know, we do have an extensive program of cooperation with China on environmental initiatives through a series of programs the Vice President inaugurated as well as through programs that EPA and others in the Administration participate in, whether global greenhouse gas reduction, urban air quality or energy efficiency.

And those programs are continuing.

Mr. DOGGETT. Outside this agreement?

Ambassador BARSHEFSKY. Yes. Those are outside the agreement but the services market opening is in this agreement as well as a pre-agreement by China that to the extent the WTO removes tariffs on environmental goods and services and we would like to do that to diffuse the technology, to diffuse these products, China will agree.

Chairman ARCHER. The gentleman's time has expired.

Madam Ambassador, you are excused. The Committee will stand in recess until we can complete the votes on the floor and then return.

[Recess.]

Chairman ARCHER. The committee will come to order. The Chair apologizes to our witnesses for the delay, but we have no control over when they have votes on the floor of the House of Representatives.

I am told that Mr. Trammell and Mr. Erisman would like to be given the opportunity to move up to this panel, and that is acceptable to the Chair, provided the other individuals on the last panel are willing to stay and go in regular order. So, Mr. Erisman, would you like to—

Mr. STARK. Mr. Chairman?

Chairman ARCHER. Mr. Stark, I will recognize you shortly.

Mr. STARK. Thank you, Mr. Chairman.

Chairman ARCHER. I want to first recognize Mr. Bonsignore, who has another appointment and will have to leave, and so I would welcome you and ask you to proceed with your statement.

As I mentioned earlier—and I know most of you were in the room—we ask all witnesses to limit their oral statement to 5 minutes, and without objection, all of your printed statements will be inserted in the record.

So you may commence, Mr. Bonsignore.

STATEMENT OF MICHAEL R. BONSIGNORE, CHIEF EXECUTIVE OFFICER, HONEYWELL INTERNATIONAL, INC., MORRISTOWN, NEW JERSEY, ON BEHALF OF U.S.–CHINA BUSINESS COUNCIL, AND BUSINESS ROUNDTABLE

Mr. BONSIGNORE. Thank you. Chairman Archer, Congressman Rangel, members of the committee, distinguished colleagues on the panel, ladies and gentlemen, it is my pleasure and honor this afternoon to testify before this committee and share my perspective on the benefits of China's accession to the WTO—

Chairman ARCHER. The Chair would ask you to identify yourself for the record and whom you represent, and that would apply to all of the witnesses. I forget to mention that.

Mr. BONSIGNORE. Thank you, Mr. Chairman. I am Michael Bonsignore. I am the chief executive officer of Honeywell, and I am here on behalf of my company, the U.S.—China Business Council, and the Business Roundtable.

Chairman ARCHER. And if I could also ask you to suspend for one more moment, I think Mr. Ramstad, my colleague, would like to make a remark or two welcoming you to the committee.

Mr. RAMSTAD. Thank you, Mr. Chairman.

Just very briefly, I want to thank all the members of this panel for your indulgence and for your patience and for being here today. And I especially want to welcome the two Minnesotans, my two Minnesota friends on this panel, Mr. Chairman, and thank you for the recognition.

First I want to welcome back to the committee Ernie Micek, chairman of the board at Cargill. He, more than anybody I know in this country, has focused his energy, attention, and expertise on efforts to feed the world through international trade. Ernie also represents here the Emergency Committee for American Trade, ECAT, so he is wearing two hats.

Then, Mr. Chairman, I also want to welcome Mike Bonsignore, CEO of Honeywell, as you said, a company that started in Minnesota 114 years ago, currently employs 8,500 people in Minnesota and 120,000 people in 100 countries throughout the world. Like Cargill, Honeywell has been a great corporate citizen in Minnesota because of Mike's leadership, in large part, and like Cargill, Honeywell extends its philanthropic activities to its operations worldwide.

Mike also wears two hats, Mr. Chairman. He comes before us today as chairman of the U.S.—China Business Council and as a member—actually, three hats, a member of the Business Roundtable's Trade and Investment Task Force.

So I want to welcome both Mike Bonsignore and Ernie Micek, two great Minnesotans who are here today, and thank you for being with us.

Thank you, Mr. Chairman. I yield back.

Chairman ARCHER. Now, Mr. Bonsignore, hopefully without any further interruptions by the Chair, we would be pleased to receive your testimony.

Mr. BONSIGNORE. Thank you, Mr. Chairman. My written testimony today addresses five points: the commercial benefits of the WTO bilateral agreement; the importance of the U.S. policy of engagement with China; how U.S. companies are catalysts for change in China; the opportunity to support enforcement; and the leadership role of the United States on labor, the environment, and human rights.

Because of my limited time today, I would like to focus on two of these points: the commercial benefits and the positive role of U.S. companies.

You have all heard a great deal about the many benefits of China's accession to the WTO and the bilateral agreement. I would like to make it more concrete for you today by showing you how those benefits play out for my company, Honeywell.

This deal creates a great opportunity for us. China is a huge market for U.S. business and for my company. We are already seeing growth rates between 10 to 25 percent per year in many of the key market segments that we serve in China.

Because of this agreement, Honeywell will have the ability now to import directly anywhere into China, resell under our own name, provide service, maintenance, and repair support, and manage our own distribution process. This is an extremely positive change because, in China today, foreign firms have no right to distribute products other than those that they make in China, or to own or manage the distribution network.

Direct control over our operations and sales process is essential to our cost and service competitiveness. It increases our exports to China. It creates more jobs at home in the United States for the products that we produce here and more jobs in China for those products that are applied in satisfying the needs of Chinese customers.

Our story goes beyond the commercial benefits, however. There are other significant aspects to U.S. businesses' commercial engagement in China, aspects that complement and support a range of U.S. policy objectives in China. American companies and farmers see China as the single most promising opportunity to expand markets for our products and services. Growth in China will create a positive return for our employees, for our shareholders, for our communities, and for our suppliers. In fact, the economic benefit from any one U.S. company's commercial engagement in China ripples across the U.S. economy as part of an intricate supply chain of producers and suppliers, small and large alike, allowing individual U.S. workers to benefit as well.

But the benefits of U.S. commercial engagement are not economic alone. The ripple effect of these other benefits touches both U.S. and Chinese lives. These benefits are perhaps not as well known or understood, so I would like to take a moment to share with you something of the "untold story" of U.S. business in China.

When U.S. companies export to China and establish operations there, they bring not only their products and services, but also our operating standards, best business practices, corporate values, and guiding principles. In so doing, U.S. companies set a positive example of corporate citizenship and contribute to the evolution of norms within Chinese society. Indeed, many of these practices are increasingly being adopted by domestic enterprises in China.

For example, did you know that U.S. companies bring literally tens of thousands of Chinese citizens to visit the United States each year for a wide range of technical, managerial, financial, environmental, and health and safety training? For many Chinese visitors, these trips are not only their first exposure to the United States and our way of life, but their first time out of China. In addition, U.S. companies provide extensive training and education in China.

Did you know that U.S. companies, through the voluntary contributions of U.S. employees and their foundations, have provided millions of dollars for flood relief in China? Did you know that we build schools and health clinics and that our own Chinese employees volunteer in these efforts?

Did you know that we provide home ownership programs for our workers and their families, offer scholarships, donate equipment and computers for training, teach classes, support rule of law initiatives, and sponsor Little League baseball teams in the communities where we operate in China?

And did you realize that in undertaking all of these activities on our own, American companies are complementing many of the policy aims toward China that Congress and the Administration share?

These examples, and many others, are documented in a report being released to the Congress today. This report, "Corporate Social Responsibility in China: Practices by U.S. Companies," was compiled and published under the leadership of The Business Roundtable.

We acknowledge that trade is no quick fix to China's problems. It encourages China to move in the right direction, however. Through trade and investment, we can give the Chinese people access to information and exposure to other cultures from around the world.

In closing, let me say that the WTO agreement can be evaluated on its economic merits alone and on that basis be judged a win for the United States. But China's accession to the WTO is not about economics alone. It is about seizing an important opportunity to work with China on a shared objective of accelerating China's economic transformation. It is about expanding the ability of business to do good while doing well.

Thank you, Mr. Chairman, for this opportunity to testify. I urge the committee to take a broad view of the importance of bringing China into the WTO and lend its full support to passing permanent normal trade relations this year.

Thank you, sir.

[The prepared statement follows:]

Statement of Michael R. Bonsignore, Chief Executive Officer, Honeywell International, Inc., Morristown, New Jersey, on behalf of the U.S.—China Business Council, and Business Roundtable

Good morning Chairman Archer, Congressman Rangel, members of the Committee, my distinguished colleagues on the panel, ladies and gentlemen. It is my pleasure and honor to have this opportunity to testify before this committee to share my perspective on the benefits of China's accession to the WTO and the recently concluded bilateral agreement between the United States and China.

I am Chief Executive Officer of Honeywell, a global diversified manufacturing and technology company. As you know, Honeywell and Allied Signal merged at the end of 1999 to form a great new organization with almost $25 billion in revenue, 120,000 employees worldwide and a presence in almost 100 countries. I am extremely optimistic about the future of this new enterprise—and very aware that much of our future growth and business opportunities will come from markets outside the United States—as it has in the past.

Today, Honeywell's business in China is approaching a half a billion dollars in revenue—a substantial portion of which is direct exports from the United States. On virtually every Boeing aircraft shipped to China, Honeywell's avionics, auxiliary power units, wheels and brakes are on board. We ship industrial process control instruments and systems to help modernize a wide range of Chinese industries—from pulp and paper to petrochemicals. We ship energy efficient lighting controls and energy management systems for Chinese buildings—hotels, offices, airports, schools and hospitals. We export amorphous metals to help improve the efficiency of transformers in China, and also specialty chemicals, polymers and electronic materials to support a wide range of Chinese manufacturing needs. Finally, we provide turbochargers for diesel and gas engines and truck air brake components for the automotive market.

We also have a wide range of business operations in China. The growth rate we are experiencing in the numerous markets we serve in China ranges between 10–25%. We are deeply committed to the China market and to the local communities in which we operate.

I am proud to be serving this year as Chairman of the U.S.—China Business Council. As you know, the Council was founded in 1973 and represents 250 leading American companies with business interests in China. I am also a member of The Business Roundtable's Trade & Investment Task Force. The Roundtable is an association of more than 200 CEOs of U.S. corporations that together employ more than 10 million people. It is dedicated to examining public policy issues that affect the economy and developing positions that reflect sound economic and social principles.

I would like to address five points in my remarks to you today: (1) the commercial benefits of this agreement are comprehensive; (2) the United States' consistent policy of engagement with China is working and should continue; (3) U.S. business is a catalyst for positive change in China; (4) enforcement is essential; and (5) the United States must show leadership by taking concrete steps with China to improve labor, human rights and environmental conditions.

I. The Commercial Benefits of the WTO Deal Are Comprehensive

Because the overall commercial benefits have been amply addressed by Ambassador Barshefsky and no doubt will be addressed by many other representatives from a wide range of the American business and agricultural community, I will not go into them further here.

I have, however, attached to my written testimony a summary of the benefits that Honeywell specifically anticipates from the implementation of this agreement. I believe the benefits to Honeywell paint a picture of how significant China's concessions are when you put them all together and see how they work in the real-world.

II. Engagement Works

For more than two decades now, U.S. Presidents from both parties (Nixon, Ford, Carter, Reagan, Bush, and Clinton), who have widely divergent ideas on economic policy, foreign affairs, and social goals, have consistently determined that the best way to increase America's influence with China is through a policy of engagement. The four Presidential front-runners now are no different: Bush, Bradley, Gore, and McCain all support continuing our engagement with China by passing PNTR.

Our Presidents' support for engagement has been so consistent and bipartisan over the years because it works. Engagement simply means building our economic and political ties with China, bilaterally and multilaterally, so that we provide constant pressure for China to be a constructive and responsible member of the international community. Strengthening our economic ties strengthens our voice by giving China a vested interest in maintaining stable relations with us and addressing our concerns.

Engagement does not mean that we are ratifying all of China's policies or giving China any special treatment. I hear those phrases bandied about in the debate, and they couldn't be more wrong. This WTO deal gives China no special treatment. It simply brings China into the international trading system where China has to follow the same rules that everyone else follows, instead of leaving China outside the system where China gets to make its own rules.

Do we have more work to do? Absolutely. However, PNTR is not a ratification of China's troubling human rights record. We need to continue to press China to move toward an open and democratic society that protects individuals' freedom and that contributes to international peace and security. Bringing China into the WTO is a positive step in this direction. It opens up China's economy and society to the world, wider than ever before. And it binds China more firmly into the international community and the rule of law.

Opponents of PNTR would hold us back from realizing this future.

Let us take a moment to examine what a future without PNTR would look like. It's a picture without the United States in it. While the rest of the world is engaging in deeper economic ties with China through the WTO, the United States would be on the sidelines. Europe and Japan would be increasing their investments in China, increasing exports to China, and also increasing their imports from China. Now when human rights or other issues come up, which diplomats will China see first? Ours because we demand it? Or Europe's because they have new economic contacts, new investments, and new projects in China.

This isn't a matter of buying influence; it's a matter of building the relationships to get things done. Relationships are important everywhere, but especially in Asia. China is a proud country. Isolating them and threatening them into following our point of view is not an effective strategy to influence them. Obviously we're no weakling, and China knows that well. But if we want to have influence, we've got to be at the table. PNTR helps puts us there.

III. U.S. Business is a Catalyst for Positive Change in China

The commercial interests U.S. companies hold in China are well known. As I just stated, I believe the benefits of the WTO deal to U.S. business interests are increasingly well documented. What is perhaps not as well known or understood are the non-commercial benefits that accrue both to the U.S. and China through the engagement of U.S. business in China. I'd like to take a few moments to share with you something of the "untold story" of U.S. business in China.

The fact is that when U.S. companies export to and establish operations in China, they bring not only their products and services, but also their operating standards, their best business practices, their corporate values and their guiding principles. In so doing, U.S. companies act as a catalyst for positive change in China. Through the dissemination of a broad range of practices, U.S. companies set a positive example of corporate citizenship and contribute to the evolution of norms within Chinese society.

Indeed, many of these practices are increasingly being adopted by domestic enterprises in China.

• Did you know that U.S. companies are helping to lead the way for improved environmental, health and safety conditions in China by engaging in government-to-government initiatives, providing direct support to environmental NGOs, establishing U.S.—based internal company standards and practices, and introducing environmental technologies and industrial systems that minimize waste, control emissions, and enhance safety?

• Did you know that literally tens of thousands of Chinese citizens visit the United States each year as the U.S. parent company brings them over for a wide range of technical, managerial, financial, environmental, health and safety training and education? For many Chinese visitors these trips are not only their first visit to the United States, but their first time out of China. Extensive training and education is also provided by U.S. companies in China.

• Did you know that U.S. companies—through the voluntary contributions of U.S. employees and through their foundations—have provided millions of dollars to support flood relief and aid victims in China? Did you know that we build schools and health clinics, and that our own Chinese employees volunteer in these efforts? Did you know that we provide home ownership assistance programs to our employees and their families, offer scholarships, donate equipment and computers for training, teach classes at Universities, support rule of law initiatives and grassroots electoral reform programs, bring western arts and entertainment, and sponsor Little League teams in the communities in which we operate?

• Did you realize that in undertaking all of these activities, on our volition, we are complementing many of the policy aims that Congress and the Administration share toward China? We are, in fact, the major U.S. non-governmental organization effecting concrete change in China.

These examples and more have been documented by a number of U.S. companies in a report that is being released to Congress today. This report, entitled "Corporate Social Responsibility in China: Practices by U.S. Companies,"was compiled and published under the leadership of The Business Roundtable. I commend it you as tangible evidence that U.S. companies do more than sell goods in China.

In supporting commercial engagement with China—by securing the benefits of the WTO deal through the extension of PNTR to China—Congress supports the ability of U.S. business to make a positive difference in China.

IV. Enforcement Is Essential

It is clear from the debate underway here in Washington that there is a substantial amount of concern regarding China's willingness to live up to its obligations under the WTO. Many assert that China's record on trade accords is mixed. That's true. We will need to be vigilant. As Ambassador Barshefsky has outlined in her remarks, monitoring, compliance and dispute settlement mechanisms are a built-in advantage of the WTO system.

In order to ensure compliance by China with its commitments, it is important to understand the extent of those commitments. I would tell you that the breadth of commitments that China has made in the WTO package is impressive. They represent the conviction of Chinese leadership that their future prosperity lies in moving to full-scale economic liberalization and engagement in multilateral institutions—not in the outmoded and unsuccessful model of isolationism, and a command and control economy populated by state-owned enterprises.

But the reforms and institutional changes implicit in changing China's economic model and system are formidable. The Chinese government is acutely conscious of these challenges -and of the cost that will be born in terms of unemployment, dislocations, failed enterprises, and the trial and error of institution and capacity building that accompanies the transformation from a central, planned economy to a transparent, market based economy.

For example, the national treatment provisions of the WTO accession package mean that China will have to revamp its national, provincial, and local regulatory structure to treat U.S. and other foreign participants in its markets no differently than Chinese companies. Doing so will require greater transparency in drafting, promulgating and implementing administrative rules governing virtually every sector of the economy.

The Chinese government has already begun a process of administrative law reform, with support from U.S. legal and academic institutions and experts, but this process inevitably will need to accelerate.

There are two ways to deal with these implementation challenges. First, when necessary there should be no hesitation by the U.S. government to invoke the WTO dispute settlement process. Second, we also need to realize that there are many opportunities to facilitate and improve China's compliance before trade disputes erupt. The greater the ability of China to comply quickly and effectively, the lower the risk that we end up in a situation where full blown trade disputes emerge.

In this regard, I strongly believe that part of our strategy in optimizing the benefits of China's accession to the WTO and ensuring that the system works, should be to provide technical and other assistance to China to help it reach, and to accelerate, the vigorous compliance that we expect.

V. The United States Must Show Leadership By Taking Concrete Steps with China to Improve Labor, Human Rights, and Environmental Conditions

We know that some of you are concerned that passing PNTR will be bad for labor, the environment and human rights. These are important issues. And PNTR will not adversely affect our ability to be a positive influence on China in these areas.

While trade is no quick fix to China's problems, it encourages China to move in the right direction. At its core, bringing China into the WTO increases China's ties with the international community. That is the best chance for bringing change to China: it exposes China to international standards and the rule of law, and it links China's prosperity to the international system.

We can't dictate policy to China; it's a sovereign country like us, and we don't respond well to other countries dictating how we cope with some of our problems. But through trade, we can expand the Chinese people's access to new information and increase their exposure to cultures from around the world. Over time, these indirect efforts have an impact.

The bottom line is that by building closer economic ties with China, the United States *increases* its leverage with China, and that helps us address these concerns. Isolating China doesn't get us any closer to meeting these concerns.

It is also important for the Congress to recognize that China has been taking constructive steps.

On labor, China's 1995 National Labor Law implemented a 40-hour workweek. That law also permits workers to bargain collectively. On the environment, China issued its first environmental protection law in 1979. Today, China's State Environmental Protection Agency has ministerial status, just as our EPA has cabinet status. In addition, over the last two decades, China has significantly lowered its energy intensity, which is its total energy consumption divided by GDP. China's energy intensity has dropped by over 55%, while U.S. energy intensity fell by only 25% during the same period.

We need to encourage them, and provide assistance where we can, to keep them moving in a positive direction.

Finally, we all need to be creative in identifying and capitalizing on opportunities to provide tools to help China meet its obligations and improve its labor, human rights, and environmental conditions.

As this Committee is well aware, the economic, social and political transformation that has been underway in Eastern Europe and the former Soviet Union since the collapse of the Berlin Wall continues to be an arduous journey for most of the countries involved. The relative success of these efforts, to date, is a function of multiple factors—including the United States' leadership in supporting those efforts.

As you know, the Congress established a number of constructive programs to support democratic and market-reform initiatives as these regions began their transformation process.

In November 1989, just weeks after the Berlin Wall fell, the U.S. Congress in a bold act of recognition of the daunting challenge facing the former Soviet satellite countries, passed the SEED Act—Support of Eastern European Democracy. In 1992, shortly after the dissolution of the Soviet Union, Congress passed the Freedom Support Act. These initiatives were aimed at helping these countries meet the wrenching adjustment challenges ahead of them. Since 1990 the United States has spent approximately $15 billion on this effort. Much of the funding in these programs went to support fiscal, financial, regulatory and legal reforms as well as to provide training and technical assistance.

These programs demonstrated U.S. leadership and commitment to democracy by providing concrete support to accelerate the economic, social and political transition in these countries. Now, Congress has the opportunity to demonstrate its commitment to China's economic, social and political transformation—by enacting permanent normal trade relations for China.

To further complement this achievement, Congress should also consider whether there are comparable initiatives that would build on the progress made in opening China up through trade.

For example, there is the so-called "rule of law initiative" on which the presidents of the United States and China symbolically embarked during the November 1997 and June 1998 summit meetings. As I'm sure you would agree, U.S.—China cooperation in the field of law is a valid, legitimate building block both of closer U.S.—China relations, and of a better world. Right now there is no significant U.S. funding to support this effort.

The business community is mindful of doing its part in this regard. As just one example, the U.S.—China Business Council in 1998 invited its member companies to make voluntary contributions to a new entity, the U.S.—China Legal Cooperation Fund. The Council's companies have contributed approximately $400,000 to the Fund, and we have since made 10 private-sector grants to worthy applicants from both the United States and China in the broad field of legal cooperation.

The United States also has a high level U.S.—China Forum on Sustainable Development that has an ambitious array of working groups which address a range of issues related to energy, environment, commercial cooperation, climate change and other topics, and that meet on a regular basis to talk about China's challenges. Yet, we do not extend the U.S.—Asia Environmental Partnership Program to China.

I believe that these types of initiatives, which provide technical and other practical assistance to China, are much more effective vehicles for making progress than denying PNTR to China.

Conclusion

As you consider whether to support PNTR, consider who it is we want to strengthen in China. The old-guard that opposes the WTO and wants to slow down economic reform? Or the reformers, who have staked their reputations on bringing China into the WTO? Failure to pass PNTR doesn't send the "strong message" that U.S. opponents of PNTR would have you believe. It doesn't tell China that the United States is getting tough on human rights, non-proliferation or other issues. Just the opposite. It says the United States isn't a player; we don't want to be at the table. And we don't stand by the agreement we made in November.

The bottom line is that turning down PNTR doesn't move us one inch closer to better human rights, environmental standards, or any other goals. It moves us a mile in the other direction. And it hurts our reputation worldwide. We should not be reverting to isolationism at a time when it is more important than ever to show leadership to the world.

I understand that at times it may seem easier to leave things as they are and just renew China's NTR annually, even at the price of passing up China's historic trade concessions. But I urge you to focus on one question: Is America better off under this deal or not? The answer is a resounding yes—we are better off. This agreement doesn't get us to the finish line, but it does move us farther along in the right direction. Yes, we're going to have challenges, and we're going to have to be vigilant to hold China to the agreement. And we're going to have to raise our voice against the Chinese policies we oppose.

In closing, let me say that the WTO deal can be evaluated on its economic merits alone and be judged a true win-win. But let me also underscore that clearly the WTO deal is not about economics alone. It's about expanding the ability of business to do good, while doing well in China. It's about strengthening a pillar of the bilateral relationship that in turn adds much needed stability to the foundation of this strategically important relationship. It's about seizing an important opportunity to work with China on a shared objective of accelerating and managing the transformation of China's economic system—with all the attendant social and political implications.

I thank you again, Mr. Chairman, for this opportunity to testify on an issue of great importance to us all. And I urge the Committee to take this broad view of the importance of the WTO deal -and lend its full and immediate support to securing PNTR for China this year.

The China WTO Accession Agreement and the Expected Benefits to Honeywell in China

The WTO accession for China is an invaluable negotiating vehicle through which to address a range of discriminatory trade practices, regulatory processes, trade barriers, lack of transparency, and other policies that limit US companies' participation in the Chinese market.

The WTO deal as announced and summarized by USTR on November 15th contains a number of very important elements that will enhance Honeywell's ability to trade with and do business in China. Honeywell will further review the terms of the Agreement once the full text is published.

Key Benefits

I. Trading and Distribution Rights. Restrictions on trading and distribution rights in the industrial sector will be progressively phased out over three (3) years. At present, China severely restricts trading rights (the right to import and export) and distribution (wholesaling, retailing, maintenance and repair, and transportation) by issuing very restrictive business licenses.

Because of the WTO agreement, Honeywell will have the ability to import directly anywhere into China, re-sell under its own name, and provide service, maintenance and repair support, and manage its own distribution process.

This is extremely important because in China today, foreign firms have no right to distribute products other than those they make in China, or to own or manage distribution networks. This will impact virtually every business unit of Honeywell—all of which serve the China market.

II. Tariffs. On high priority industrial products tariffs will be reduced to an average of 7.1% with the majority of cuts being achieved by 2003. Industrial tariffs overall will fall to an average of 9.4% by 2005.

• China will participate in the Information Technology Agreement which means that Honeywell will see tariffs on several major, high value-added information technology products phased out completely over three (3) years.

• China will be implementing the vast majority of the chemical harmonization initiative that will bring tariffs on important Honeywell product categories down to 0, 5.5, or 6.0%.

• Accelerated tariff reduction down to 25% will occur on autos by 2006, and on auto parts, tariffs will be cut to an average of 10% by the same year. Honeywell serves the auto market by providing consumer branded products for automotive manufacturers and the aftermarket, turbochargers, braking systems and electronics sensors for a range of vehicles. Improvements in market access for China's auto sector will help drive Honeywell's sales to our customers in China as well as those exporting from the United States to China.

• China will also bind its entire tariff schedule, meaning it will accept a legal and enforceable commitment not to raise tariffs in the future above the bound level.

The cumulative impact of these tariff cuts will have a significantly beneficial impact on Honeywell's cost structure in China.

III. Quotas and Licenses. WTO rules bar quotas and other quantitative restrictions, and China has agreed to eliminate these restrictions with phase-ins limited to five years.

Auto quotas will be phased out by 2005, and the quota ceiling will grow by 15% each year until the phase out. Again, this liberalization of the China auto market will be beneficial for the new company.

IV. Other Restrictions. China currently requires a "quid pro quo" for granting company access to its markets in the form of either minimum investment levels, specified technology transfer, or, local content requirements. Under the WTO agreement, all such limitations will be lifted.

The elimination of these requirements for obtaining an expanded business license will make it more efficient and cost-effective for Honeywell to support its operations and therefore enhance its competitiveness in China.

V. Services. China is among the most closed markets today to services exports anywhere in the world. However, its commitments on services are comparable to those of most WTO members.

They include commitments in all major service categories and reasonable transitions to eliminate most foreign equity restrictions. The liberalization will benefit Honeywell since it will provide us with greater choice and improved efficiencies in service sectors on which we rely to do business in China.

VI. Investment. China has agreed to implement the agreement on Trade-Related Investment Measures (TRIMS) of the WTO upon accession, and to cease enforcing trade and foreign exchange balancing requirements, local content requirements, and to refuse to enforce contracts imposing these requirements, unless they are consistent with WTO rules.

Honeywell has nine joint ventures and six manufacturing sites in China. We will enjoy greater protection of our investments and greater freedoms in operating these ventures due to these provisions in the WTO accession agreement.

VII. State-Owned/Invested Enterprises. Currently China's government has an unusually high degree of involvement in the economy and can exercise its own discretion toward the granting of contracts by state-owned enterprises.

Under the WTO agreement, state-owned enterprises will be required to make purchases solely on commercial considerations, such as price, quality, availability, and marketability. In addition, US firms will be allowed to compete for sales and purchases on non-discriminatory terms and conditions. USTR has clarified with the Chinese that the purchase of goods and services by these entities does not constitute government procurement, therefore these transactions will be subject to WTO rules.

Because state-owned and state-invested enterprises have a greater role in China's economy than in any other major economy, this change we expect will materially benefit US companies like Honeywell.

With the advent of the WTO accession Chinese companies will need to invest more in upgrading and modernizing their manufacturing processes and facilities to become more competitive globally. As a leader in automation solutions, Honeywell provides systems and products for the hydrocarbon processing, chemical, pulp and paper process, and many other industries. These industries are of strategic importance to China. We expect that the WTO will in effect generate substantial business opportunities for Honeywell as there will be a tremendous need for China to promote energy efficiency practices and adopt automation and control technologies which are Honeywell's core industrial and building control businesses.

Chairman ARCHER. Thank you, Mr. Bonsignore. The Chair understands that you do have another engagement, and we would like for you to stay as long as you can, but you may feel free to leave whenever you have to.

Mr. BONSIGNORE. Thank you, Mr. Chairman.

Chairman ARCHER. Mr. Stark, I believe you would like to introduce one of the panelists.

Mr. STARK. Thank you, Mr. Chairman. It is sort of like introducing one of the family. Chuck Mack is the Western Region Vice President for the Teamsters. When I first knew him and first ran, he was head of Local 70, and I thought Local 70 was going to win my congressional race. They had more signs around than any other political candidate in the area. And I think it is fitting. I notice, Mr. Chair, that those of us who stand for human rights and oppose welcoming China prematurely into the world of humane nations, we are outnumbered. But that is okay because Chuck is going to hold his own. I think it is fair, one against about five. He will take care of them because he knows more about creating jobs and helping democracy and creating help for the middle class and working people in the San Francisco Bay area than any person I know.

I notice that Mr. Smith of FedEx has left, and, of course, that is because if he had to sit next to Chuck Mack for more than 5 minutes, FedEx would end up with a union contract and do the right thing like United Parcel Service does, and then they might be able to better compete in the Bay area. But he left rather than be under Chuck's wonderful influence.

He does a great job, and those businesses in the Bay area that have a contract with the Teamsters recognize that when there is a problem, Chuck goes to bat to see that business grows in the Bay area because he knows that is the way that he will create jobs for his workers. He is unique in the union movement today, and I am just pleased and proud to have a friend and neighbor here against such odds, but I know he will do a good job.

Thank you, Mr. Chairman.

Chairman ARCHER. Mr. Mack, after that beautiful introduction, I think you should proceed with your testimony.

STATEMENT OF CHUCK MACK, INTERNATIONAL VICE PRESIDENT, WESTERN REGION, INTERNATIONAL BROTHERHOOD OF TEAMSTERS, SAN FRANCISCO, CALIFORNIA

Mr. MACK. Okay. Well, thank you very much. Mr. Chairman, Mr. Rangel, members of the committee, my name is Chuck Mack, and I am an international vice president, Western Region, for the Teamsters Union. Thank you for the opportunity to testify today. My statement will focus on the question of granting permanent normal trade relations status to China.

The International Brotherhood of Teamsters strongly opposes permanent NTR for the following reasons: Most important, China does not deserve it. It is one of the most repressive countries in the world. Its record on human rights and workers' rights is outrageous. From the mid-1960s to the mid-1970s, we witnessed Chinese citizens being persecuted, murdered, and forced into labor, all in the name of the so-called Cultural Revolution.

In 1979, we witnessed the Chinese Government suppress the Democracy Wall. Activists were arrested, including Wei Jingsheng. In 1989, we witnessed the Beijing massacre at Tiananmen Square, where hundreds of innocent civilians were slaughtered, and tens of thousands arrested and imprisoned. Every leader in China's pro-democracy movement has been executed, exiled, or jailed.

Today we witness continued abuse of the Chinese people. Thousands are detained or beaten for their worship of God, for expressing their own views, for seeking freedom from oppression. This is a country that does not allow freedom of speech, does not tolerate dissent, will not permit freedom of association, and persecutes those practicing religion. Organizing a union in China is a crime against the state. It guarantees a quick trip to jail; forced labor, prison labor, no independent unions, only those controlled by the Communist Party are the order of the day.

Does it make sense to reward a country so abnormal when it comes to human rights with NTR status?

Right now, the only leverage existing to get China to do the right thing is the annual NTR review. We buy 40 percent of China's exports. That is powerful. It is a lot of clout if we, in fact, want to use it. As long as we continue annual review, we can debate and spotlight the issue of basic worker and human rights in China.

Even further, we have the ability to predicate access to U.S. markets on achievement of gains on these rights. However, once China is given permanent NTR, the leverage is gone. Congress has no ability or power to influence China on these rights.

Worse yet, what kind of message do we send to the world if the U.S. grants China NTR? That profit, open markets, transnational business takes precedence? That human rights and worker rights are for sale, or they are not allowed to get in the way of economic expediency?

As democracy activists Harry Wu and Wei Jingsheng have often stated, "increased trade not linked to human rights merely enriches the regime and the vast network of enterprises it controls, increasing its stranglehold on the Chinese people."

Rather than turning our back, we should be demanding that basic worker rights and human rights are the price for doing business with the United States, because if it is not us, who?

I had an opportunity to read a summary of the U.S.—China bilateral trade agreement. It takes care of everybody, almost: agriculture, industrial production, banking, audio-visual, securities, distribution, to name a few. The only thing missing? Workers.

Now, the Teamsters are not opposed to trade. To the contrary, many of our members' livelihoods are tied to it. But trade has to have a human face. It has to be environmentally sensitive. That is what the WTO Seattle protests were all about. However, trade with China is about money, new markets, low labor costs, little or no environmental regulation, and nonexistent work safety regulations.

If NTR is okay, it is going to be a boon, a windfall, and a proverbial gold mine for transnational corporations. But what does it mean for the rest of us? Not much. There will be an increasing trade deficit for the United States. Right now, that deficit is around $70 billion annually. If China is granted NTR and access to the WTO, the deficit, it is estimated, will go as high as $104 billion by the year 2002.

Job loss—that is what trade deficit means. So does a trade policy that forces American workers to compete with goods made by workers whose rights are violated daily and have no power to make change.

Think about it. What business wouldn't be interested in relocating to a country that guarantees low wages, no worker safety standards, no independent unions, and no strikes? I can't think of any.

If the trade deficit moves as predicted, it will mean a manufacturing job loss of 600,000. With what has already gone, we are talking over a million jobs.

Yes, I know, business claims the agreement with create new jobs. We heard the same promise during the NAFTA debate, and it didn't happen. In fact, we lost jobs.

I would like to submit for the record, Mr. Chairman, a letter by Teamsters President James Hoffa to John Welch, chief executive officer of General Electric. It provides a concrete example of U.S. jobs being shipped across the border as a result of NAFTA. Interestingly enough, G.E. recently announced they intend to make significant investments in China.

NTR also means a one-way street or, more accurately, a one-sided agreement. They are going to get our money, our technology, our jobs, and if past understanding is any measure—

Chairman ARCHER. Mr. Mack, if you will suspend for a moment, without objection, the letter will be inserted in the record.

Mr. MACK. Thank you very much.

[The letter follows:]

February 4, 2000

Mr. John F. Welch
Chairman and CEO
General Electric Company
3135 Easton Turnpike
Fairfield, CT 06431

Dear Mr. Welch:

I write on behalf of the 1.4 million members of the International Brotherhood of Teamsters to ask you one question: How do you reconcile General Electric's promises during the NAFTA debate to create jobs for American workers, with your subsequent and ongoing campaign to move thousands of positions—en masse—from the U.S. to Mexico?

I ask this question not merely to satisfy my own curiosity. Rather, I ask it because the American people are being offered, once again, the same bad deal for China's accession to the WTO that we were offered during the NAFTA debate: removal of trade barriers for the benefit of corporations, in exchange for promises of new jobs.

In October 1993—during the NAFTA debate—a representative from General Electric testified before the House Committee on Foreign Affairs that sales to Mexico "could support 10,000 jobs for General Electric and its suppliers.. . . these jobs depend on the success of this agreement." Unfortunately, General Electric, through its subsequent deeds, has swayed from those promises.

The fact is that since NAFTA was enacted more than 3,500 employees at General Electric have lost their jobs and in each case the Department of Labor ruled that those job losses were the result of either a shift in production across the border or increased company imports from Mexico.

To make matters worse, General Electric has embarked on a personal crusade to strong-arm its suppliers to pile on to this NAFTA-sanctioned march across the Rio Grande. A recent Business Week article (see attached) outlines this concerted effort to move American jobs to Mexico, noting that the number of workers employed by General Electric in the U.S. has fallen by half over the past 15 years. In that same time period, the number of foreign workers has doubled—all in the name of increased profits.

And profit you have! While orchestrating the plight of thousands of American working families, the corporation has realized tremendous financial gains. Since the passage of NAFTA, General Electric stock has risen from under $100 a share to over $130 a share, twice undergoing a 2-for–1 split. In 1998 alone, you personally received more than $37 million in salary, bonuses and other compensation. If you factor in stock option grants, your take that year soars to more than $62 million, making you one of the highest paid CEO's in America. This makes me wonder whether General Electric is more concerned with bringing in big bucks for its shareholders and executives than it is with "bringing good things to life."

Regardless, the pattern here is clear. Corporate America has learned that it can coerce Congress and the American people into passing new free trade agreements so long as it promises to create new jobs. It is then free to use those same trade agreements to ship good American jobs overseas in order to avoid important labor and environmental standards and exploit low-wage, underprivileged workers. And when that's not enough, Corporate America comes back for more—this time, China's accession to the WTO.

Fortunately, the American people don't have to wait for the outcome of the U.S.—China deal to see how General Electric intends to behave. In one breath it promises that free trade with China will heap tremendous benefits upon our workers, our farmers, and our children. And in the other, its President of Medical Systems, Chih Chen, announces the transfer of General Electrics' research, development and manufacturing centers from the U.S. to Japan and Beijing. In addition, General Electric has announced that it will embark on three ventures in China, including construction of a $30 million facility in Shanghai.

It disturbs me that General Electric would be so cavalier to declare its intention to move as an "effort to search out and attract the unlimited pool of talent that is available in the countries in which we do business," while pointing to Mexico and China as targets of that effort. I must inform you, Mr. Welch, that there is another country that not only has an "unlimited pool of talent," but also ensures workers' and human rights, guarantees free speech, and protects individual liberty: the United States.

In the upcoming battle against granting China permanent NTR, I am committed to highlighting these facts -and General Electric's labor record in particular—in worksites and in the halls of Congress. I promise that the American people will know who really benefited from NAFTA, and who will really prosper from granting China permanent NTR status.

That is a promise that I intend to keep.

Sincerely,

JAMES P. HOFFA
General President

JPH/bk
Attachment

The Workplace

UP NORTH: *Ametek IUE members protest at the Lynn (Mass.) GE plant*

COST-CUTTING

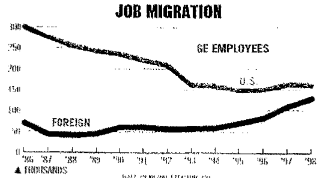
WELCH'S MARCH TO THE SOUTH

As GE pressures suppliers to shift to Mexico, unions dig in

One of General Electric Co. CEO John F. Welch's favorite phrases is "squeeze the lemon," or wring out costs to maintain the company's stellar profits. In the past year, the lemon-squeezing at GE has been as never before. In a new, superaggressive round of cost-cutting, the company is now demanding deep price cuts from its suppliers. To help them meet the stiff goals, several of GE's business units—including aircraft engines, power systems, and industrial systems—have been prodding suppliers to move to low-cost Mexico, where the industrial giant already employs 30,000 people. GE even puts on "supplier migration" conferences to help them make the leap.

GE's hard-nosed new push could spark other companies to emulate its tactics. The supplier crackdown is reminiscent of a similar attempt by former General Motors Corp. parts czar José Ignacio Lopez de Arriortua. His efforts largely failed in the face of stiff supplier resistance. But if GE succeeds, other companies could be inclined to try again. GE officials at headquarters in Fairfield, Conn., say the business units are simply carrying out Welch's larger campaign to globalize all aspects of the company. Says Rick Kennedy, a spokesman at GE Aircraft Engines (GEAE): "We're aggressively asking for double-digit price reductions from our suppliers. We have to do this if we're going to be part of GE."

JOB MIGRATION



GE's efforts to get suppliers to move abroad come just as World Trade Organization ministers start gathering in Seattle on Nov. 30. That timing could help make the GE moves an issue at the talks, where critics will be pointing to just such strategies—and the resulting loss of U.S. jobs to low-wage countries—as the inevitable fruit of unregulated trade. GE's 14 unions hope to make an example in Seattle of the company's supplier policy, arguing that it's paving the way for a new wave of job shifts. They plan to send dozens of members to march with a float attacking Welch.

PALTRY WAR CHEST. The campaign by GE's unions, which bargain jointly through the Coordinated Bargaining Committee (CBC), is also the opening salvo of bargaining talks over new labor contracts to replace those expiring next June. Because GE's unions are weak—fully half of their 47,000 members at the company belong to the nearly bankrupt International Union of Electronic workers (IUE)—they'll have a hard time mounting a credible strike threat. Instead, the CBC is planning a public campaign to tar Welch's image. They plan to focus on likely job losses at GE suppliers. The unions also suspect that GE may move even

The Workplace

more unionized GE jobs to Mexico and other countries once it has viable supplier bases in place. "GE hasn't moved our jobs to Mexico yet because our skilled jobs are higher up the food chain," says Jeff Crosby, president of IUE Local 201 at GE's Lynn (Mass.) jet-engine plant. "But once they have suppliers there, GE can set up shop, too." His members from parts supplier Ametek Inc. picketed the plant on Nov. 19 to protest GE's pressure on Ametek to move to Monterrey, Mexico.

Although it has never openly criticized Welch before, the AFL-CIO is jumping into the fray this time. Federation officials have decided that Welch's widely admired status in Corporate America has lent legitimacy to a model of business success that they insist is built on job and wage cuts. "Welch is keeping his profit margins high by redistributing value from workers to shareholders, which isn't what U.S. companies should be doing," charges Ron Blackwell, the AFL-CIO's director of corporate affairs. Last year, the AFL-CIO proposed a bold plan to spend some $25 million on a massive new-member recruitment drive at GE, but the IUE wasn't willing to take the risk. So the federation is backing the new, less ambitious campaign that focuses on traditional tactics like rallies and protests.

STRONG TIDE. GE's U.S. workforce has been shrinking for more than a decade as Welch has cut costs by shifting production and investment to lower-wage countries. Since 1986, the domestic workforce has plunged by nearly 50%, to 163,000, while foreign employment has nearly doubled, to 130,000 (chart, page 74). Some of this came from businesses GE sold, but also from rapid expansion in Mexico, India, and other Asian countries. Meanwhile, GE's union workforce has shriveled by almost two-thirds since the early 1980s, as work was relocated to cheaper, nonunion plants in the U.S. and abroad.

Welch's supplier squeeze may accelerate the trend. In his annual pep talk to GE's top managers in Boca Raton, Fla., last January, he again stressed the need to globalize production to remain cost-competitive, as he had done in prior years. But this time, he also insisted that GE prod suppliers to follow suit. Several business units moved quickly to do so, with GEAE among the most aggressive. This year, GEAE has held what it calls "supplier migration" conferences in Cincinnati, near the unit's Evendale (Ohio) headquarters, and in Monterrey, where an aerospace industrial park is going up.

REACTION TO A '98 PLANT CLOSURE IN FITCHBURG, MASS.

BIG SHOW The unions, with AFL-CIO backing, are sending a shock force to the WTO meeting to try to pillory Jack Welch

At the meetings, GEAE officials told dozens of suppliers that it wants to cut costs up to 14%, according to documents about the Monterrey meeting at Paoli (Pa.)-based Ametek, whose aerospace unit makes aircraft instruments. The internal report, a copy of which BUSINESS WEEK obtained, says: "GE set the tone early and succinctly: 'Migrate or be out of business; not a matter of if, just when. This is not a seminar just to provide information. We expect you to move and move quickly.'" Says William Burke, Ametek's vice-president for investor relations: "GE has made clear its desire that its suppliers move to Mexico, and we are evaluating that option. We have a long relationship with GE, and we want to preserve it."

GEAE officials argue that heightened competition leaves them no choice. Jet engines sell for less than they did four years ago, says Kennedy, the unit's spokesman. Almost all GEAE's profits have come from contracts to maintain engines already sold. And that business is getting tougher, with rivals such as United Technologies Corp.'s Pratt & Whitney laying off thousands of workers to slash costs. "This company is going to make its net income targets, and to do it, we will have to take difficult measures," says Kennedy.

Still, even some suppliers don't see the Mexico push as justified. They point out that GEAE's operating profit has soared by 80% since 1994, to $1.7 billion on sales of $10.3 billion. GE, they argue, is leading the cost cuts. "It's hard to give away 5% or 10% to a company making so much money when most of the suppliers are marginally profitable," says Barry Bucher, the CEO and founder of Aerospace International Materials, a $30 million distributor of specialty metals in Cincinnati. Nonetheless, Bucher says he's looking into a joint venture in Mexico in response to the demands from GE, his top customer.

The unions, for their part, worry that GEAE will follow in the footsteps of GE's appliance unit. To remain competitive in that low-skilled, low-margin industry, GE Appliances has slashed its workforce nearly in half at its Appliance Park facility in Louisville, to some 7,500 today. Much of the work has been relocated to a joint venture in Mexico. Union leaders have tried to stave off further job shifts by offering concessions. In early November, the company agreed to a $200 million investment in Louisville in exchange for productivity improvements and lump-sum payments instead of wage hikes for its members. "We hope GE will see this as a solution they can adopt in jet engines and elsewhere," says IUE President Edward L. Fire.

Labor's new campaign may embarrass Welch and even prompt GE to tone down its demands on suppliers. But it won't rebuild the union's clout at the bargaining table the way a serious organizing drive might have done. Until that happens, Welch probably has little to fear from his restive unions.

By Aaron Bernstein in Washington

Chairman ARCHER. You may continue.

Mr. MACK. It means a one-sided agreement. They are going to get our money, our technology, our jobs, and if past understanding is any measure, only live up to that part of the deal they want to. In 1992, 1994, 1996, China violated memorandums of understanding on property rights and market access.

Eliminating annual review is not going to make this any better. China can't be trusted, and that alone should be reason to say no to NTR. And we are not talking about stopping trade. We are talking about the annual review that we are currently going through.

We are respectfully asking Congress to vote against a proposal that smacks of corporate greed, one that benefits an unholy alliance of transnational corporations and China's repressive Communist dictatorship. We are asking Congress to reject a proposal that perpetuates exploitation of workers here, there, and everywhere around the world.

Thank you, Mr. Chairman.

[The prepared statement follows:]

Statement of Chuck Mack, International Vice President, Western Region, International Brotherhood of Teamsters, San Francisco, California

Mr. Chairman, Mr. Rangel, and members of the Committee, the International Brotherhood of Teamsters thanks you for the opportunity to appear here today on behalf of our 1.4 million members.

Last fall, prior to the Seattle WTO Ministerial, the Clinton Administration announced that it had reached a trade deal with Communist China that will ease its accession to the World Trade Organization (WTO) and grant it permanent Normal Trade Relations (NTR) status. The Administration and its business allies claim that this agreement will benefit the U.S. But the Teamsters Union is here today to tell you that that isn't true! This deal will hurt the U.S. Moreover, it will hurt American workers and their counterparts in China and instead will benefit large, multinational corporations that seek to maximize profits no matter what the costs are to workers and the communities in which they live.

Since 1980, the U.S. has gone from enjoying a small trade surplus with China to suffering an enormous $60 billion trade deficit. The deficit has doubled in the last few years alone, as the Clinton Administration has opened the U.S. market to more Chinese exports under the "constructive engagement policy" which ignores both human rights and worker rights considerations. Our trade deficit with China cannot be blamed solely on the influx of cheap imports like shoes and toys. The U.S. also sustains a trade deficit with China in the hi-tech computer and electronics sectors, which in the case of the former increased by more than 100% between 1996 and 1998. To put these trade numbers in perspective, the U.S. trade deficit with China is second only to our imbalance with Japan. And for all the hoopla about our exports to China the fact that these exports make up a miniscule portion of the U.S. total—we export less to China than to Belgium. This deal will only lead to further increases in this job destroying trade deficit.

Congress and this Administration must understand that the basic problem is that our trade policy with China forces us to compete with goods made by workers whose rights are violated on a daily basis. Workers in China do not enjoy even the most basic workplace safety protections. Forced labor is rampant, with some seven million Chinese toiling away in prison labor camps, the vast majority serving sentences for such political "crimes" as criticizing the Communist government. To try to organize a union in China is to commit a crime against the state. That is why China's workers, despite their relatively high skill levels, earn some of the lowest wages in the world. That is why American manufacturers like General Electric are so eager to move production to China. Why pay a living wage when starvation wages will do? Why pay the cost of maintaining a safe workplace when the government doesn't care if you do or not?

So let's talk about General Electric for a moment. In October 1993—during the NAFTA debate—its representative testified before the House Committee on Foreign

Affairs that sales to Mexico "could support 10,000 jobs for General Electric and its suppliersa. . . these jobs depend on the success of this agreement." Unfortunately, General Electric through its subsequent deeds, has swayed from those promises.

The fact is that since NAFTA was enacted more than 3,500 employees at General Electric have lost their jobs and in each case the Department of Labor ruled that those job losses were the result of either a shift in production across the border or increased company imports from Mexico.

To make matters worse, General Electric has embarked on a personal crusade to strong-arm its suppliers to pile on to this NAFTA-sanctioned march across the Rio Grande. A recent Business Week article outlines this concerted effort to move American jobs to Mexico, noting that the number of workers employed by General Electric in the U.S. has fallen by half over the past 15 years. In that same time period, the number of foreign workers has doubled—all in the name of increased profits.

And profit they have! While orchestrating the plight of thousands of American working families, the corporation has realized tremendous financial gains. Since the passage of NAFTA, General Electric stock has risen from under $100 a share to over $130 a share, twice undergoing a 2-for–1 split. In 1998 alone, its CEO, John Welch, received more than $37 million in salary, bonuses and other compensation. If you factor in stock option grants, his take that year soars to more than $62 million, making him one of the highest paid CEO's in America. This makes this Union wonder whether General Electric is more concerned with bringing in big bucks for its shareholders and executives than it is with "bringing good things to life."

Regardless, the pattern here is clear. Corporate America has learned that it can coerce Congress and the American people into passing new free trade agreements so long as it promises to create new jobs. It is then free to use those same trade agreements to ship good American jobs overseas in order to avoid important labor and environmental standards and exploit low-wage, underprivileged workers. And when that's not enough, Corporate America comes back for more—this time, China's accession to the WTO.

Fortunately, the American people don't have to wait for the outcome of the U.S.—China deal to see how General Electric intends to behave. In one breath it promises that free trade with China will heap tremendous benefits upon our workers, our farmers, and our children. And in the other, its President of Medical Systems, Chih Chen, announces the transfer of General Electrics' research, development and manufacturing centers from the U.S. to Japan and Beijing. In addition, General Electric has announced that it will embark on three ventures in China, including construction of a $30 million facility in Shanghai.

What disturbs the Teamsters Union most is that General Electric would be so cavalier to declare its intention to move as an "effort to search out and attract the unlimited pool of talent that is available in the countries in which we do business," while pointing to China as a target of that effort. Someone should inform General Electric that there is another country that not only has an "unlimited pool of talent," but also ensures workers' and human rights, guarantees free speech, and protects individual liberty: the United States.

Please understand the Teamsters Union is not anti-trade. In fact, we support trade that benefits people. We think American workers should face fair competition, not competition based on a race to the bottom: Fair trade—not free trade. But how can we trade with China when even China, much less multinational corporations, can't be trusted to keep its promises and to trade on fair and equitable terms.

The fact is that since the U.S. began conferring MFN, now NTR, benefits on China in 1980, it has violated every single bilateral agreement it has entered into with the U.S. Some examples: After signing three agreements on intellectual property with the U.S. in four years, China continued to commit massive copyright infringement of U.S. products, leading to the completion of yet a fourth agreement in April 1999. As noted in recent news reports, even as China eliminates barriers in some sectors of the economy, it erects them in others—in clear violation of the U.S. China Market Access Agreement. It recently imposed duties on chemicals, motor vehicles and other U.S. exports, imposed a total ban on foreign diesel and gasoline, and prohibited the use of foreign equipment to construct new power plants. The Chinese Ministry of Foreign Trade and Economic Cooperation (MOFTEC) publicly advertised its strategy to invest in Africa to circumvent U.S. quotas on textiles and apparel. And the Department of Commerce recently found that China continues to force U.S. joint ventures to transfer valuable commercial technology to China in exchange for market access.

Already, top Chinese officials are openly advertising the regime's intention to disregard the commitments it made to the U.S. in its deal to join the WTO.

If we then extend permanent NTR to China, which guarantees permanent access to the U.S. market, we will be sending a message that no matter what promises

China has failed to fulfill, there will be no consequences in terms of trade with America. Moreover, if permanent NTR is granted, the U.S. will have put a seal of approval on one of the most brutally repressive regimes in the world. We will be turning our back on China's democracy movement, on the thousands of people who have fought and in many cases died for freedom in that nation. As democracy activists Harry Wu and Wei Jingsheng have often stated, increased trade that is not linked to human rights merely enriches the regime and the vast network of enterprises it controls, increasing its stranglehold on the Chinese people.

A no strings attached deal for permanent NTR would be a disaster for people in China and the U.S. The only beneficiaries will be the Chinese dictatorship and those unscrupulous corporations like General Electric who are eager to exploit China's repressed labor force and happy to do business with its dictators.

Chairman ARCHER. Thank you, Mr. Mack.

Mr. Hulshof, you are recognized to introduce one of the panelists.

Mr. HULSHOF. I appreciate that, Mr. Chairman. I am going to be brief because he has a plane to catch, and I know he will want to provide his testimony. But I am happy to have a constituent here and I will save my time for questions of Mr. Mack. Mr. Mack, you said that trade has to have a human face. The gentleman who is about to testify is that human face on how trade is going to benefit especially American agriculture.

Mr. Chairman, it is my privilege to introduce to the committee Richard Erisman. Mr. Erisman is a constituent of mine from the 9th Congressional District of Missouri. He is a fifth-generation farmer. He is also involved in various other organizations, but he is here today to provide testimony as simply that: an independent producer who has been trying to make a living on the land.

So, Richard, we are happy to have you here and pleased to have your testimony, and thank you, Mr. Chairman, for the opportunity to introduce my constituent.

Chairman ARCHER. Mr. Erisman, with that send-off, we would be pleased to receive your testimony.

STATEMENT OF RICHARD ERISMAN, FARMER, AUDRAIN COUNTY, MISSOURI, MEMBER, MISSOURI FARM BUREAU FEDERATION, AND INTERIM BOARD OF DIRECTORS, FAMILY FARMS PORK

Mr. ERISMAN. Mr. Chairman, I am Richard Erisman, as Congressman Hulshof said, and I hope that I live up to his billing.

You have all got my written testimony, and I guess that I am going to assume that you can all read. That is kind of a common assumption, I would assume here.

I am also going to use a little bit of the wit that we kind of use in the Third Farm Bureau District whenever we are talking about meetings, and sometimes we get to the point where we all know that the brain can only understand and comprehend as much as the bottom can endure. And I am sure there are a lot of folks here today that maybe have already endured all they can.

So I would like to just comment by saying, sir, that from your opening comments and as a producer, I know that you understand how important this issue is. This morning, Congressman Dooley talked an made very succulent references to all—or succinct, I think is the right word, references to all of the issues that the

Farm Bureau and myself as a producer would have and I think summed up everything that I would have wanted to have said.

I see Mr. Rangel sitting there, and he talked about Cuba this morning. And maybe I am opening myself up, but most farmers would definitely like to see an increase in trade to Cuba because that is just another market that we can have.

Someone talked about standard of living and what is going to happen with this issue. As a producer, I can only see that having trade and being able to sell our products to other countries will raise the standard of living in that country. They have to be able to buy our products in order for us to sell. And we have got to have trade to be able to do that.

I don't think that we can sit here and ignore 20 percent of the world's population as traders. We have got to be able to reach to that population.

Someone was concerned about winners and losers this morning, and I think all of us, at least from my perspective, as I deal with the John Deere dealer or as I deal with the other folks that I deal with all the time, you have winners and losers all the time. And I think it is your responsibility and Madam Barshefsky's responsibility to be sure that there are more winners than losers in this operation or in this bill. And I think that it looks like that is going to happen.

Someone was concerned about consumers. I think from a consumer standpoint, anytime you have got a market, the more players you have in that market, the better choices you have. And you have got to build a market to give consumers a better choice, to give them the opportunity to buy what it is that they want to spend their dollar on.

In agriculture, we have to have trade. We have a surplus in nearly all of our commodities. Myself, I am a hog, corn and bean farmer. That is the very worst you could be right now. You wouldn't want to know how many dollars I lost in the last 2 years. But we have got to be able to sell our product.

In the 1996 farm bill, we were promised more trade, and this is a step in the right direction. I would urge all of you to take all of these comments, you know, for whatever they are worth. Kenny has oftentimes heard me say these same things, but we have just got to open this up so that in agriculture we can sell our products, so that we can get rid of that pork that we don't know what else to do with, so that we can sell those soybeans and that soybean meal, so that we can move the corn and bring those people along to our standard of living so that everybody can benefit from this.

Sir, I think I would just stop right there and thank you for the opportunity to be here.

[The prepared statement follows:]

Statement of Richard Erisman, Farmer, Audrain County, Missouri, Member, Missouri Farm Bureau Federation, and Interim Board of Directors, Family Farms Pork

Mr. Chairman, members of the Committee, my name is Richard Erisman. My family and I raise hogs, corn and soybeans on our farm in Audrain County, Missouri. My family has farmed for at least five generations and I am proud to say that my mother still works in our hog operation. In addition, my wife and I have three children who play an integral role in our farm. My oldest son graduated recently from the University of Missouri with a degree in agricultural economics and we remain hopeful he will be able to join our operation on a full-time basis.

I also serve on the State Board of the Missouri Farm Bureau Federation and the interim board of directors of Family Farms Pork, a new generation cooperative studying the feasibility of building a pork processing plant in north central Missouri.

It is a pleasure to participate in this morning's hearing regarding permanent Normal Trade Relations (NTR) status for China. Last December, more than 500 voting delegates at Missouri Farm Bureau's Annual Meeting approved policy stating:

"We support extending Normal Trade Relations status to China to preserve and expand that agricultural market. China should adhere to the rules set by the World Trade Organization (WTO) and should not be granted access to the WTO unless they agree to reduce barriers to trade."

To put this policy in perspective, I will share some thoughts relative to how the continued weakness of the US agricultural economy is affecting our farm. The crisis facing rural America is well understood by members of this Committee and farmers are very thankful for the economic assistance provided by Congress in 1998 and 1999. In Missouri, government payments accounted for approximately 75 percent of net farm income last year. While we cannot count on ad hoc disaster assistance each year, it is important you understand the situation is not improving.

Our farm produces about 3600 market hogs annually from 180 sows. Most of the corn we raise is fed to the hogs. Our soybeans are sold and we in turn purchase soybean meal for feed.

Aside from facing some of the lowest hog prices on record, our farm was hit by a tornado on April 8th of last year. The tornado destroyed our finishing barns, leaving only concrete slabs in its wake. We have rebuilt the hog barns, which some people might question, but we had to let our hired man go. My wife works as a nurse in a nearby town, partly for the health insurance benefits.

I am an independent hog producer, meaning that I do not contract with a large production or processing corporation. My hogs are sold through Excel, a division of Cargill, on a grade and yield basis. To give you an idea of how our markets have contracted, 15 years ago, I could take pigs to two different markets on any given day and have 3–5 buyers making bids. For about the past 3 years we have had only two marketing options. I can receive a bid from Farmland or a bid from Excel. To sell to Farmland I must have a minimum of a trailer load and the hogs must be delivered to their plant in Monmouth, Illinois—a 5-hour drive. My operation doesn't produce enough hogs to fill a trailer load a week, the equivalent of the production from 600 sows. And in my opinion, there are several environmental reasons not to have that many sows at one location.

Last weekend, Senator John Ashcroft told a group of Missouri young farmers that we now have freedom to farm but we need freedom to market. I agree with this statement and while the federal government bears some of this responsibility, so do producers. In my case, I have joined many other farmers to form a new generation cooperative. In the near future, we will likely commit both hogs and capital to a new pork-processing venture. I strongly believe that adding value to our products is critical to our future success.

Ultimately, Family Farms Pork hopes to provide independent hog producers with a market that captures a larger percentage of the consumer food dollar. New generation cooperatives, such as ours, could also help ensure that the benefits of increasing consumer food demand do not fall simply to the largest corporate hog producers.

We can raise the hogs, process the pork and even pay for promotion programs. We cannot open foreign markets. Today, many agricultural producers remain frustrated by the lack of progress in expanding US exports since the passage of the 1996 farm bill. China represents a tremendous market for our products. It is essential that we not simply stand aside and wish our competitors well.

I can't sit here and tell this Committee exactly how my farm will benefit from the bilateral agreement with China or permanent NTR. But I believe US hog producers are well positioned to take advantages of increased foreign demand. And I strongly believe that China's ultimate participation in the World Trade Organization will provide mutual benefits. As the Chinese people are more fully integrated into the global economy, US agricultural producers will certainly benefit from access to this vast new market.

No doubt, trade with the Chinese is a controversial issue. It is my understanding their record of compliance with past agreements is less than stellar. Thus, it is very important our trade officials monitor compliance carefully and be prepared to act swiftly when disputes arise. Enforcement is critical; we must not turn our heads to trade violations.

In the past, China has been an inconsistent market for US agricultural products. This would have to change if China is accepted into the WTO. Under the bilateral agreement, China has agreed to accept USDA certification for meat safety for US exports, allowing US meat access to all segments of the Chinese market. For pork, tariffs will be reduced from the current level of 20 percent to 12 percent. And China's commitment to eliminate the use of export subsidies will benefit US producers as we export to other markets.

Mr. Chairman, there is no "silver bullet" for the problems US farmers and ranchers face. Yes, the combination of tax relief, regulatory reform and trade expansion will certainly help. And I can assure you that more and more producers are taking innovative steps to help restore profitability. But, the door must be opened before we can walk through. Please keep this in mind as you move forward on this very important issue.

Chairman ARCHER. Thank you for being with us, Mr. Erisman. And I guess the other three panelists are on their own. I don't think anybody up here is raising their hand to introduce you. [Laughter.]

Chairman ARCHER. So, Mr. Chen, would you lead off and proceed? We would be pleased to receive your testimony.

STATEMENT OF JOHN CHEN, CHAIRMAN OF THE BOARD, CHIEF EXECUTIVE OFFICER, AND PRESIDENT, SYBASE, INCORPORATED, ON BEHALF OF BUSINESS SOFTWARE ALLIANCE

Mr. CHEN. Thank you, Mr. Chairman and distinguished members of the committee. My name is John Chen. I am the chairman of the board, chief executive officer, and president of Sybase, one of the largest independent software companies in the world. I thank you for the opportunity to present the views of both Sybase and the Business Software Alliance. These views are also consistent with those of the High-Technology Industry Coalition, on China of which BSA is a member.

The Chinese markets offer extremely bright prospects to the U.S. high-tech industry. Realizing these potentials will be good for U.S. workers, competitiveness, and our balance of trade. Bringing China into the WTO is the best way to reap that harvest. So a vote for the PNTR is certainly a vote for the high technologies.

Sybase has 10 years' experience in China, doing business in China, and we maintain six offices in China, and it is among the leading foreign firms in terms of software sales. Sybase's commitment to trade with China is substantial and growing.

Allow me to share with you some statistics that I think you will find interesting on the U.S. software industry. Our industry is now currently growing three times as fast as the U.S. economy. We are producing new jobs at a rate of more than 5 times as fast. We created $15 billion in tax revenue last year. And yet 60 percent of our BSA companies' revenue comes from international and exports. This years we will generate a trade surplus of $20 billion, including a hefty trade surplus with China.

The Chinese market is a huge market. It is an unsurpassed opportunity. About $2 billion worth of software was sold in China in 1998, and that market is growing at a phenomenal rate of 30 percent annually.

U.S. is best suited to meet the demand. We are currently shipping 80 percent, estimated 80 percent of all the software sales in China. This translates into numerous U.S. jobs, and, again, this is what PNTR and the Chinese accession to the WTO means to our industry.

We do, however, have some challenges, and the chief barriers to the Chinese software market fall into two main categories; market access and copyright protections.

The first category are the traditional market access barriers generally addressed through the WTO agreements today. Tariffs are a simple prime example of that. Today, the duties in China run about 30 to 40 percent. As part of the package, China is agreeing to sign on to the ITA, Information Technology Agreement, eliminating tariffs on software and a whole host of IT products. China has also agreed over time to phase out nontariff trade barriers.

Now, the second barriers is the lack of effective copyright protections, and copyright piracy is a serious concern and a problem to our industry. BSA estimated the piracy rate of 95 percent in 1998 in China. Software piracy in China cost U.S. business roughly about $800 million of revenue just in 1998.

The strongest tool for promoting copyright in foreign markets is the TRIPS Agreement. This agreement obligates the WTO members to enact strong copyright laws, to put effective enforcement provisions on the books, and to actually apply these laws and take them into practice. Once China joins the WTO, if it does not comply with the TRIPS Agreement, the U.S. could invoke the WTO dispute settlement process. This process has already brought other countries into compliance, and BSA and the members are confident that this process will also work in the case of China. Congress could help companies employ this tool and providing us this weapon by approving the PNTR for China.

Software piracy is a big concern of ours, yet there are bases for optimism. It is clear that the protection of copyright is important not only to us but also to China's own economic development interest. The best way to harness that self-interest is to bring China into the WTO and be a partner of that.

So, in conclusion, as a WTO, China will have to be committed to lowering their market barriers, leveling the playing field for us, and providing strong copyright protections.

Improved market access will also help to advance their economic and social reform in China. So a vote granting PNTR to China is critical to the American high-technology industry.

I thank you, everybody, for the opportunity to testify.

[The prepared statement follows:]

Statement of John Chen, Chairman of the Board, Chief Executive Officer, and President, Sybase, Incorporated, on behalf of the Business Software Alliance

Mr. Chairman, and members of the Committee:

Thank you for the opportunity to present the views of Sybase and the Business Software Alliance on the recently concluded bilateral trade agreement with the Peoples' Republic of China, and the prospect of China's accession to the World Trade Organization. The U.S.—China bilateral WTO accession agreement reached on November 15, 1999 is a solid win for the U.S. high-technology industry.

Specifically, the Chinese market offers bright prospects to the U.S. software industry. If we are able to realize these prospects, the gains for U.S. workers, U.S.

competitiveness, and the U.S. balance of trade will be overwhelmingly positive. In the view of my company, as well the American software industry, bringing China into the World Trade Organization as soon as possible is the best way to reap that harvest.

Introduction

My name is John Chen. I am Chairman of the Board, Chief Executive Officer and President of Sybase, Inc., one of the largest independent software companies in the world. Our company's mission is to help businesses manage and deliver applications, content and data anywhere they are needed. Sybase was founded in 1984, is headquartered in Emeryville, California, and has over 4,200 employees worldwide. Our software products are sold all over the world, including in China, where we maintain six offices and are among the leading foreign firms in terms of software sales. Markets in China that Sybase has successfully entered include banking and finance, telecommunications, security, government, transportation, healthcare and the public sector of energy, TV stations and retail. As another example of Sybase's commitment to building our business in China, we have just opened the Asian Solutions Center in January of this year in Hong Kong. Jointly sponsored by Sybase and Hong Kong Productivity Council, the Asian Solutions Center enables local and regional application vendors, systems integrators, and industry service specialists to take advantage of the center's marketing, technical, business alliance and consulting resources to develop leading-edge IT solutions for both local and regional businesses.

Sybase is also a member of the Policy Council of the Business Software Alliance, on whose behalf I am testifying today. BSA is the voice of the world's leading software developers before governments and with consumers in the international marketplace. Its members represent the fastest growing industry in the world. BSA educates computer users on software copyrights; advocates public policy that fosters innovation and expands trade opportunities; and fights software piracy. BSA members include Adobe, Apple Computer, Autodesk, Bentley Systems, Compaq, Corel Corporation, IBM, Intel, Intuit, Lotus Development, Macromedia, Microsoft, Network Associates, Novell, Sybase, Symantec and Walker Digital. BSA Websites: *www.bsa.org;www.nopiracy.com.*

I would also like to note that BSA is a member of the High-Tech Industry Coalition on China. The coalition is comprised of 11 trade associations representing U.S. manufacturers of semiconductors and semiconductor equipment and materials, computers, electronics, software and telecommunications equipment, as well as U.S. Internet companies. A list of coalition members is attached and the coalition has submitted a written statement for your review. The Coalition wholeheartedly encourages the Congress to quickly move to grant PNTR for China

In the U.S., the software industry is growing three times as fast, and producing new jobs at a rate more than five times as fast, as the economy as a whole. One of the key ingredients in this great success story has been sales outside the U.S.—in a word, exports. The U.S. software industry as a whole brings in 60 percent of its revenue from sales outside the U.S. According to a recent study commissioned by BSA, the U.S. software industry is expected to generate a trade surplus of more than $20 billion this year. That includes a hefty trade surplus with China, a country with whom most other sectors of the economy are running a big trade deficit. Increasing trade with China -and especially, increasing U.S. exports to China—is a crucial goal for Sybase, for BSA companies generally, and for the U.S. economy as a whole. That is why we in the software industry are so enthusiastic about the prospect of China joining the World Trade Organization. We also strongly support the recently negotiated bilateral trade agreement with the PRC, which is an essential factor in making China's WTO accession possible. Bringing China into the WTO offers us the best policy tools available for opening up the Chinese market, particularly by reducing the widespread copyright piracy that acts as an enormous market access barrier for our industry. For this reason, we urge Congress to act as promptly as possible to grant China permanent normal trade relations (PNTR), which is a prerequisite to making WTO membership a reality.

China: The Opportunity

The Chinese market presents an unsurpassed opportunity for Sybase and the entire U.S. software industry. According to the most recent estimates I have seen, about $1 billion worth of software was sold in China in 1998. That market is growing at a phenomenal annual rate of 30 percent, according to the U.S. Foreign and Commercial Service. If anything, that estimate may be too conservative. When you reflect on the fact that the number of Internet users in China quadrupled during 1999 alone -and is expected to more than double again by the end of this year—you can understand why the Chinese demand for computer software of all kinds is growing by leaps and bounds. And, Sybase has found that there is an emerging generation of Chinese that are ready to embrace Sybase's powerful Enterprise Portal solutions that help them deliver on the promise of e-Business.

No country is better situated to meet that demand than the United States. American software products are preeminent in every market in every country around the world—including in China—where U.S. firms account for an estimated 80 percent of all software sold by foreign companies. Our software industry is an unrivalled generator of U.S. jobs—nearly a million of them—and good jobs, too, paying on average more than double the average salary for non-software jobs in the private sector. The more U.S. software is sold in China, the more good jobs are created here at home. So opening the Chinese market as much as possible to U.S. software exports is both good business for the software industry, and good public policy for the United States. For us, that is what PNTR and Chinese accession to the WTO are all about. Leading software companies like Sybase can only benefit, creating new high quality U.S. jobs, from China's entering the WTO.

Of course, I am not saying that bringing China into the WTO will be a panacea, or that it automatically guarantees that U.S. companies will thrive in the Chinese market. There are a number of significant obstacles that must be overcome. But establishing permanent normal trade relations with China and bringing China into the WTO are the best ways to help us deal with those obstacles.

The chief barriers to the Chinese market for U.S. software companies fall into two main categories: Market access and copyright piracy. If China is brought into the WTO on the terms contained in the new bilateral trade deal, we will be in a much better position to attack barriers in both categories.

Market Access Barriers

In the first category are the traditional market access barriers generally addressed through WTO agreements. Tariffs are a prime example. Today, the duties, taxes and other fees for importing software into China run about 30 to 40 percent. Tariffs are high on other information technology products as well. These tariffs make our products less competitive to Chinese buyers. As part of the WTO accession package, China is agreeing to sign on to the Information Technology Agreement (ITA), which requires all signatories to zero out their tariffs on computer software and a host of other information technology products. Clearly, that will enhance our prospects in the Chinese market.

China also maintains a number of non-tariff trade barriers, ranging from import quotas to restrictions on the right of foreign companies to establish businesses in China or to undertake wholesale and retail distribution of products there. In the bilateral agreement recently negotiated with China, many of these barriers would be phased out. For instance, U.S. software companies would be allowed to directly distribute their products anywhere in China within two years (on the wholesale level), and within three years (at retail). It is notable that the Chinese have even agreed to allow some foreign investment in the telecommunications infrastructure, and in content services to be provided over these networks and via the Internet. These opportunities would have been unthinkable for China just a few years ago; they are of particular interest to many U.S. software companies, and will become available to Americans only once China joins the WTO.

Finally, as a WTO member, China will be subject to a number of general obligations that will facilitate the market prospects of U.S. software companies. These commitments include national treatment obligations, so that U.S. companies cannot be treated less favorably than domestic Chinese competitors, and transparency, so that the rules of trade are publicly available and known to all. Clearly the U.S. software industry will benefit from a more level playing field in China.

The Major Barrier: Piracy

The second major type of market access barrier our companies have faced in China is the lack of effective intellectual property protection. Copyright piracy—the unauthorized copying, distribution or sale of our copyrighted computer programs—is an extremely serious problem for the software industry in China. BSA estimates the piracy level for packaged software applications at 95 percent for 1998. That means that for every legitimate, licensed copy of such an application in use in China, there are about 19 pirate copies.

Some of those pirate copies are counterfeit CD–ROM's sold in a shopping arcade or on a street corner. Many others are illegal, unlicensed copies, which are made within a business enterprise, government agency, or other institution. A company may buy one legitimate copy of the program and then, in violation of its licensing agreement, make it available for use on ten, twenty, or a hundred PC's, whether on a network or by making unauthorized physical copies. In all, BSA conservatively estimates that software piracy in China cost the U.S. business software sector more than $800 million in revenue in 1998.

Piracy of U.S. software, in whatever form it takes, eats into the market that U.S. software companies would otherwise serve. BSA companies spend millions to research, develop, test, market, distribute, support and service the best computer programs in the world. Our licensing fees must allow us to recover those costs and make a profit, in part to fund ongoing research, development and testing. The pirate, whether on a street corner or in an office suite, has none of those costs—he just takes the product, and makes the copies available free or for a small fraction of the legitimate price.

Competing with piracy is economically impossible. It's very difficult to persuade a customer to buy a product when he can readily take it for free without legal consequences. So when piracy dominates a market as it does in China, it constitutes an obstacle to market entry far more formidable than any tariff, import quota, or other more traditional market access barrier.

Impact of WTO Accession

How will China's entry into the WTO help in the fight against software piracy? The strongest multilateral trade tool we have for promoting good copyright protection in foreign markets is the WTO Agreement on Trade Related Aspects of Intellectual Property Rights—the TRIPS Agreement. This pact obligates WTO member countries to enact strong copyright laws, to put effective enforcement provisions on the books and to actually apply those laws in practice. Indeed, to fulfill their TRIPS obligations, countries must criminally prosecute those who are committing copyright piracy on a commercial scale, including unauthorized use in the corporate environment, and must impose punishments on pirates that are sufficient to create deterrence.

As part of the WTO accession package, China has promised to come into compliance with the TRIPS Agreement immediately, without any delay or transition period. That commitment gives us a powerful tool in combating software piracy in China.

The TRIPS Agreement not only sets standards for intellectual property protection and enforcement; it also provides—for the first time—a strong multilateral mechanism for ensuring that countries meet these standards. That mechanism is the WTO dispute settlement process. Once China joins the WTO, if it is not complying with the requirements of the TRIPS Agreement, the U.S. (as well as its trading partners) can invoke the dispute settlement process to strongly encourage China into compliance.

WTO dispute settlement has already succeeded in bringing countries into compliance with their TRIPS obligations relating to copyright enforcement and has worked effectively for U.S. copyright owners. BSA is confident that it will work in China, too. But only if China joins the WTO can this effective tool be used to deter the huge software piracy problem we face there. Congress can help companies employ this tool by approving PNTR for China.

Piracy: Recent Developments and Future Prospects

The software piracy picture in China is naturally a concern. The numbers that have already been cited, for piracy levels and for the resulting losses to U.S. software companies, speak for themselves. Nevertheless, I believe there is some basis for optimism about the future. Although China's problem of copyright piracy is longstanding—this issue brought the U.S. and China to the brink of a trade war twice in the mid–1990's—we have made some progress in a few areas. Let me cite three of them.

First, five years ago China was not only a major producer of pirated software, but also a major exporter. Compilations of illegal copies of business applications, made in China, were polluting the markets in Hong Kong, in Southeast Asia, even in Russia and Eastern Europe. That is no longer the case. Pirate exports from China are minimal in volume. While the Chinese market itself remains overrun with pirate product, at least there has been progress in some of the neighboring markets, which Chinese pirates used to supply.

Second, following the lead of the United States government, the PRC has finally begun to tackle the enormous problem of software piracy within the agencies and instrumentalities of the Chinese government itself. Soon after President Clinton issued an Executive Order on software asset management in the federal government, China's State Council promulgated a decree requiring all government agencies to use only legal, licensed software. The follow-up on this decree has been uneven, and much more remains to be done, but we are very gratified that the Chinese government is addressing this problem.

For BSA member companies as a whole, and especially for enterprise software companies like Sybase, the economic impact of corporate end-user piracy is much greater than the damage inflicted by the retail sale of counterfeit software programs. We hope that the government legalization process in China will be accompanied by strong enforcement actions against Chinese corporations that engage in piracy.

Third, although anti-piracy enforcement through administrative and criminal means is of paramount importance, there are indications that the civil courts are becoming more hospitable to infringement cases. Last year, one U.S. software company obtained a civil judgment of over $100,000—a record—against Chinese pirates. Another successful civil case, brought by Chinese authors whose material was posted on the Internet without their consent, has garnered widespread publicity in the Chinese press. The world is watching with great interest the way in which Chinese courts address the issue of corporate end user piracy, which more than anything will reflect China's true commitment to the protection of intellectual property rights.

Although software piracy remains a major issue with China, I believe we are starting to see concrete signs of a change in the attitude of the Chinese government to the entire question of protection of intellectual property. A number of factors have contributed to this change. One factor, certainly, has been China's implementation of the 1995 bilateral agreement with the United States on the enforcement of intellectual property rights.

Another factor which cannot be underestimated is the remarkable growth of China's own software industry. The U.S. government estimates that there were 2,000 independent software firms in China in 1998. A Price Waterhouse Coopers study commissioned by BSA predicts that by 2001, the software and supporting industries will account for 100,000 Chinese jobs, will produce almost $600 million in direct tax revenues to the Chinese government, and will stimulate some $6.2 billion in total economic activity in China. These Chinese firms, just like the American software firms doing business in China, depend on strong copyright protection, and are extremely vulnerable to piracy. In fact, according to Price Waterhouse Coopers, reducing piracy levels by just ten percent in 1997 would have added over 13,000 additional Chinese jobs and generated almost $80 million in tax revenues.

Conclusion

It is becoming increasingly clear that the protection of copyright is extremely important to China's economic development. The Chinese increasingly recognize their own strong self-interest in reducing software piracy. The best way to harness that self-interest for the benefit of our own software industry is to bring China into the WTO. As a WTO member, China will be committed to lowering market access barriers, leveling the competitive playing field within its market, and, most importantly, providing strong copyright protection and meaningful mechanisms to enforce that protection.

American software makers and the entire high-tech industry have been at the forefront of U.S. economic expansion and technological leadership. Granting China PNTR, coupled with the significant market reforms in China embodied in its WTO commitments, will enable US high technology companies to expand their market presence and business opportunities in this critical market.

Moreover, access to American commercial information technology enables people worldwide to improve business efficiency across all sectors, enhance educational and social opportunities, and connect with one another. Improved market access for U.S. commercial information technology in China will help to advance economic and social reform in China. A timely congressional vote granting PNTR to China is a critical and necessary step toward securing this goal. Of course, there is a danger that China may not live up to all its WTO commitments. But WTO membership will also subject China to a proven dispute procedure for enforcing those commitments, one that has worked well in the recent past to create strong pressure on countries to deliver on their commitments regarding copyright enforcement.

Thank you once again for the chance to provide the perspectives of Sybase and the BSA on this critical issue.

Chairman ARCHER. Thank you, Mr. Chen.

Our next witness is Mr. Micek, and I must say, Ernie, it is good to see you again. It has been a while. Welcome to the committee, and you may proceed.

STATEMENT OF ERNEST S. MICEK, CHAIRMAN, CARGILL, INCORPORATED, MINNEAPOLIS, MINNESOTA, AND CHAIRMAN, EMERGENCY COMMITTEE FOR AMERICAN TRADE

Mr. MICEK. Thank you, Mr. Chairman, Mr. Rangel, Mr. Crane, and to Mr. Ramstad for the very kind introduction.

I am Ernie Micek, chairman of Cargill. I am testifying today as chairman of the Emergency Committee for American Trade. ECAT urges the members of the committee and Congress to make China's entry into the World Trade Organization and America's extension of PNTR treatment to China the number one priority on the U.S. trade agenda this year.

Cargill has been doing business in China for nearly 30 years and has witnessed firsthand the impact of trade and expanded bilateral ties in supporting openness and individual freedom, economic reform, and higher living standards in China.

As Mr. Bonsignore noted, American companies have played an important role in encouraging these changes in China by introducing American values and high standards in our Chinese facilities and by providing our customers in China with cheaper and higher-quality products, both through trade and investment.

We are also very aware that problems remain and that change must occur before China is transformed into a pluralistic society with a market economy. However, as I have testified to this committee before, walling off a neighbor cuts off any opportunity to change that neighbor's behavior and makes the global neighborhood a dangerous place. Instead, we must make China a full participant in the global neighborhood by bringing China into the WTO.

America cannot open the door to these historic opportunities in China's markets unless we extend PNTR status to China.

A recent letter to Speaker Hastert in Roll Call says simply, "Opportunity knocks." I ask permission that this letter be included in the record with my statement.

Chairman ARCHER. Without objection, so ordered.

[The letter follows:]

OPPORTUNITY KNOCKS.

The Honorable Speaker Dennis Hastert
U.S. House of Representatives
Washington, D.C. 20515

January 26, 2000

Dear Mr. Speaker:

Bringing China under the rules of the international trading system is in America's national interest.

Bringing China under the rules of the international trading system is in America's national interest. By opening the door

Last November, U.S. Trade Representative Barshefsky announced an historic U.S.-China trade agreement. By opening the door for China to join the World Trade Organization (WTO), the agreement provides unprecedented opportunities for workers, companies, and farmers across America. Because U.S. markets are already open, we can only gain from China's admission. In WTO accession negotiations, it is China, not the United States, that must unilaterally open its markets and agree to play by global rules.

Trade is much more than just the sale of goods and services: it is an exchange of ideas, beliefs, and values that changes and enriches all who participate. For two decades, China's historic opening to foreign trade has advanced America's economic and security interests, while helping transform the lives of the Chinese people.

American business, agriculture, and consumers need your strong leadership to make the promise of China's WTO market-opening a reality. To realize the full benefits of China's commitments, the United States must recognize China as a full WTO Member by granting Permanent Normal Trade Relations (PNTR) – the same non-discriminatory tariff treatment we give to 133 WTO Members. We are giving up nothing. Because China has received NTR on an annual basis for almost twenty years, U.S. tariffs would remain exactly the same, while China's are reduced or eliminated.

At a time when America's prosperity rests on our continued participation in the global marketplace, we cannot afford to leave the world's biggest emerging market to our European and Japanese competitors. China is America's fourth largest trading partner and one of the fastest-growing markets in the world for American industrial, high-technology, and services products. It is our sixth largest agricultural export market and has enormous future potential. USDA estimates China could represent over one-third of the future growth in U.S. farm exports in the next 10 years.

Earlier this year, strong bipartisan congressional leadership on U.S.-China trade allowed the WTO negotiations to succeed. The stakes are even higher today. We urge all Members to consider the importance of China's WTO market-opening for companies, workers, and farmers in their districts. We look forward to working with Congress and the Administration to secure timely approval of PNTR for China – without conditions or delay – so the United States can fully apply the WTO and reap the full benefits of this unprecedented breakthrough for American trade.

Sincerely,

BUSINESS COALITION FOR U.S.-CHINA TRADE

www.business4chinatrade.org BUSINESS COALITION FOR U.S.-CHINA TRADE 1211 CONNECTICUT AVE., STE 801, N.W., WASHINGTON,D.C. 20036 202.659.5147 FAX: 202.659.1347

Mr. MICEK. Mr. Chairman, in the aftermath of the Seattle WTO Ministerial, what better way to begin rebuilding the national and international consensus for trade than to rally as a nation around an opportunity that knocks at our door.

The tremendous one-sided benefits for all sectors of the United States have been amply documented. The United States agricultural and business communities are especially indebted to Ambassador Barshefsky and the outstanding U.S. negotiating team whose hard work produced this historic agreement.

China has committed to begin implementation of its WTO commitments upon its accession. Most importantly, China's WTO commitments will be fully enforceable under the WTO dispute settlement procedures.

Speaking on behalf of Cargill, I do want to direct your attention to the administration's efforts to resolve a remaining trading rights issue for U.S. fertilizer exports. A witness on behalf of the Fertilizer Institute will be testifying later today on this issue, which is vitally important to the fertilizer industry. I urge this committee to support the administration's efforts to seek a prompt and favorable resolution of this matter.

China's WTO accession will help to ensure that U.S. trade and investment remain powerful engines of economic growth, especially for U.S. farmers and agriculture.

China's WTO accession will benefit U.S. companies and our employees and their families and advance U.S. living standards. For the agricultural sector, the removal of barriers on grain, proteins, and agricultural commodities and the elimination of restrictions on distribution and trading rights will open vast new market opportunities.

China's WTO accession is also critical to the growth of small- and medium-size American companies, like Leon Trammel's, which now account for over 80 percent of U.S. exports to China. Support for China's WTO accession does not mean that we condone China's track record on human rights and individual and religious freedoms. We must as a Government and as private citizens do all we can to promote individual rights and the rule of law in China. The record of the last quarter-century of America's bipartisan policy of maintaining ties with China has taught us that positive change is the product of engagement and communication, not isolation.

To take advantage of the opportunity knocking at our door, we must grant unconditional PNTR treatment to China. Chinese negotiators themselves have made it clear that their willingness to extend to the U.S. the benefits of the bilateral agreement and WTO obligations is contingent on receiving PNTR treatment from the United States. We will not be entitled to all these benefits under the U.S.—China 1979 bilateral commercial agreement. If we do not extend PNTR treatment to China, U.S. goods, services, and farm products will be seriously disadvantaged, if not shut out of the Chinese market.

In conclusion, Mr. Chairman, ECAT members urge the members of this committee and the Congress to act early this year to approve PNTR treatment for China without conditions. The President is to be commended for making enactment of PNTR a top priority and putting in place a top-flight team of administration officials, headed by Secretary of Commerce Bill Daley and Steve Richetti, to build a national consensus for PNTR.

I am also encouraged by the continuing support for PNTR from you, Mr. Chairman, the members of this committee, and other members of the House.

Mr. Chairman, I want you to know that we are working flat out, both here in Washington and in congressional districts across the country, to make the case for China PNTR. We are also supporting grass-roots efforts through ECAT's "Trade: Discover the Opportunity" employee trade education program and the business coalition's special website.

With the advent of our historic bilateral agreement with China and China's WTO accession, opportunity knocks. America must have the courage and the foresight to answer that knock at the door by granting PNTR treatment to China.

I thank this committee for your leadership on this issue and the opportunity to testify. Thank you.

[The prepared statement follows:]

Statement of Ernest S. Micek, Chairman, Cargill, Incorporated, Minneapolis, Minnesota and Chairman, Emergency Committee for American Trade

I am Ernie Micek, Chairman of Cargill, Incorporated. Cargill is a privately held agribusiness company founded over 130 years ago in Iowa. Today the company is headquartered in Minneapolis, Minnesota, and our 80,000 employees are engaged in marketing, processing, and distributing agricultural, food, financial, and industrial commodities throughout the world.

Cargill has been doing business in China for nearly 30 years and has witnessed first-hand the tremendous impact of trade and expanded bilateral ties in supporting greater openness and individual freedom, economic reform, and higher living standards in China. As I have testified to this Committee before, Cargill and other American companies have played an important role in encouraging these changes in China by introducing American values and high standards in our Chinese facilities and by providing our customers in China with better production technologies and higher quality products.

While we have seen great strides toward reform in China, we also are very aware that serious problems remain and that vast change must occur before China is transformed into a pluralistic society with a market economy. However, walling off a neighbor cuts off any opportunity to change that neighbor's behavior and makes the global neighborhood a dangerous place. Instead, we must make China a full participant in the global neighborhood by bringing China into the WTO.

I am testifying before the Ways and Means Committee today as Chairman of the Emergency Committee for American Trade, comprised of the heads of major American companies with global operations who represent all principal sectors of the U.S. economy. The annual sales of ECAT companies total over one trillion dollars, and the companies employ approximately four million men and women.

ECAT joins the Administration, leading Republican and Democratic members of Congress, and others in the U.S. business and agriculture communities in urging Congress to make China's entry into the World Trade Organization and America's extension of permanent Normal Trade Relations (PNTR) treatment to China the number-one priority on the U.S. trade agenda this year. Never before have the American benefits of a trade agreement been so clear and so one-sided. The U.S.—China bilateral WTO market access agreement announced by Ambassador Barshefsky last November would tear down major trade barriers in all sectors of China's economy and create new opportunities for American working men and women in the agricultural, manufacturing, and services industries across the nation. While China's WTO accession will give U.S. products and services better access to China's market, China gains no new access to our market. In fact, the United States will enjoy greater protection than we have right now against surges of Chinese imports in the form of tough new safeguard provisions and maintenance of strong antidumping rules.

America cannot open the door to these historic opportunities in China's market unless it extends permanent Normal Trade Relations (PNTR) status to China. A recent Business Coalition for U.S.—China Trade letter to Speaker Hastert supporting

PNTR treatment for China, signed by over 300 trade associations representing virtually every sector of the economy, put the message very well. The headline in the letter, which appeared in *Roll Call* and a copy of which accompanies my testimony, reads simply, "Opportunity Knocks."

Mr. Chairman, in the aftermath of the Seattle WTO Ministerial and efforts to rebuild a domestic and international consensus on trade, what better way to encourage that consensus than to rally as a nation around an opportunity that knocks at our door. The extension of PNTR treatment to China and U.S. support for China's WTO accession is also an important signal to WTO member countries, particularly developing countries, of U.S. support for the WTO and moving forward with the global trade agenda.

I want to highlight a number of the reasons why moving forward with China's WTO accession and the extension of PNTR treatment to China is so critical to our nation.

China's WTO Accession Benefits America

Historic Market Access Opportunities for U.S. Agriculture, Manufacturing and Services

The tremendous benefits for all sectors of the U.S. economy from the removal of China's tariff and non-tariff barriers under the U.S.—China bilateral WTO agreement that have been amply documented in Administration testimony are undisputed. The U.S. agricultural and business communities are especially indebted to Ambassador Barshefsky and the outstanding U.S. negotiating team whose hard work and perseverance produced this historic agreement.

The comprehensive agreement provides for major reductions in China's import tariffs on industrial goods from 25 percent to just over 9 percent, and tariffs on information technology products will fall to zero. In agriculture, China has made commitments to reduce tariffs on priority products such as beef, citrus, and dairy from over 30 percent to 12 percent, eliminate export subsidies, provide greater market access for wheat, cotton, and corn, and eliminate sanitary and phytosanitary barriers to wheat and other major U.S. farm products. In services, the agreement provides market access to virtually all services sectors including distribution, insurance, telecommunications, banking, and express delivery. The bilateral agreement also addresses the problem of state trading, prohibits forced technology transfer, and eliminates discriminatory local content and export performance requirements, as well as other discriminatory investment laws and policies. The Congressional Research Service estimates that the removal of tariff and non-tariff barriers under the agreement could enable U.S. companies to boost their annual sales to China by as much as $11.5 billion by 2005.

These benefits are not hypothetical. China has committed to begin implementation of its WTO commitments upon its accession, and the transition periods allowed under the agreement are in most cases no more than three-to-five years. In the case of agriculture, China has begun to implement its commitments even prior to accession by starting to put in place the agreement to eliminate its sanitary and phytosanitary trade barriers. Most importantly, China's WTO commitments will be fully enforceable under WTO dispute settlement procedures, as well as other special periodic reviews such as the WTO's Trade Policy Review Mechanism (TPRM). While China's record on abiding by its commitments—like that of other countries—will not be perfect, having the added leverage of multilateral enforcement through the WTO dispute settlement and the TPRM will ensure that China adheres to a high level of implementation.

Speaking on behalf of Cargill, I want to direct your attention to Administration efforts to resolve a remaining trading rights issue for U.S. fertilizer exports. A witness on behalf of The Fertilizer Institute will be testifying before this Committee later today on this issue that is vitally important to the fertilizer industry. I urge the Committee to support the Administration's efforts to seek a prompt and favorable resolution of this matter.

Importance of China's WTO Accession to Promoting U.S. Economic Growth and Standard of Living

China's WTO accession will help to ensure that U.S. trade and investment remain powerful engines of economic growth. With 96 percent of the world's customers outside of the United States, the future growth of the American economy depends on expanding world markets. In agriculture, U.S. farmers are depending on the Chinese market for future growth. The U.S. Department of Agriculture projects that 75 percent of the future growth of U.S. farm exports will be in Asia and that China will account for half of that amount. The American Farm Bureau has stated that

China is "the most important growth market for U.S. agriculture in the 21st century."

China's WTO accession will enable Cargill and other American companies to continue to provide opportunity to their employees and their families and advance U.S. living standards. As documented in ECAT's study, *Global Investments, American Returns*, American companies with global operations are able to contribute more to U.S. growth and living standards than companies with purely domestic operations through their research and development, exports, and investments. Expanded market access to China, the world's largest emerging economy with the greatest market potential, is key to helping American companies sustain these positive contributions to the U.S. economy.

In Cargill's case, the removal of tariff and non-tariff barriers on grain, proteins, and other agricultural commodities and the elimination of restrictions on distribution and trading rights under the U.S.—China bilateral WTO agreement will open vast new market opportunities. These changes will mean increased exports and sales for our animal feed and soybean crushing facilities in China, and will open new investment opportunities in Chinese agriculture. Cargill's working men and women understand, both as employees and stakeholders, that expanded exports and sales in the Chinese market will mean new activity and opportunity for them here at home.

China's WTO accession is not just important to major American companies like Cargill and other ECAT member companies, it is also critical to the growth of small and medium-size American companies which now account for over 80 percent of U.S. exports to China. Small and medium-size firms, such as Leon Trammell's firm, which you will hear about today, also stand to benefit as U.S. suppliers. As documented in *Global Investments, American Returns*, American companies with global operations buy over 90 percent of their intermediate inputs from U.S. suppliers.

Importance of China's WTO Accession in Promoting Greater Individual Freedom and Rule of Law in China

Support for China's WTO accession must not be mistaken in any way as condoning China's track record on human rights and individual and religious freedoms, or turning a blind eye to other serious problems that exist in China. These issues must be addressed, and we must continue as a government and as private citizens to do all we can to promote individual rights and the rule of law in China. The record of the last quarter century of America's bipartisan policy of maintaining trade ties with China has taught us that positive change is the product of engagement, not isolation. While maintaining China's NTR status has been the cornerstone of our engagement policy with China, this policy and our relations with China have been buffeted by the uncertainties of the annual NTR renewal process. Achieving China's WTO accession and extending PNTR treatment to China without any conditions or annual review will provide a solid foundation that will allow our policy of engagement to bear greater fruit.

PNTR Treatment for China: There is No Alternative

To take advantage of the opportunity knocking at our door from China's WTO accession, we must grant PNTR treatment to China. Once China becomes a WTO member, the United States is obliged to provide unconditional most-favored-nation treatment to China, as it does to all current 133 WTO member countries, in compliance with Article I of the GATT/WTO agreement. As a result, as noted by Professor John Jackson, a leading authority on GATT/WTO law, the United States cannot comply with its WTO obligations in extending WTO benefits to China unless it extends Permanent Normal Trade Relations status (PNTR) treatment to China.

China currently receives Normal Trade Relations (NTR) treatment from the United States pursuant to the Jackson-Vanik provisions of Title IV of the Trade Act of 1974, which governs the extension of NTR treatment to non-market economy countries. The Jackson-Vanik provisions provide conditional NTR treatment because they tie extension of NTR to compliance with freedom of emigration criteria and require that NTR be renewed annually. As long as China's NTR status in the United States remains subject to the Jackson-Vanik provisions, the United States will not meet the requirements under Article I to provide unconditional MFN treatment. Removing the freedom of emigration provisions from Jackson-Vanik would not cure this defect, as long as China's NTR treatment remained subject to the discriminatory annual renewal requirements that the United States does not impose on current WTO members.

Of equal importance to the legal arguments on the necessity of extending PNTR treatment to China are very real political considerations. In the course of the U.S. negotiations with China on WTO accession, Chinese negotiators made it clear that their willingness to extend the benefits of their bilateral WTO agreement and WTO obligations to the United States is contingent on receiving PNTR treatment from the United States. U.S. failure to grant PNTR treatment to China would encourage China to back off from its bilateral commitments and jeopardize the tremendous market access gains that we have fought so hard to achieve. Moreover, the failure of the United States to grant PNTR to China could be used by anti-reform forces within China as an excuse to backtrack from market-opening and economic reform.

Some have argued that even if the United States decided not to extend PNTR treatment and WTO privileges to China that the United States would still be entitled to enjoy the benefits of China's WTO accession under the U.S.—China 1979 bilateral commercial agreement. This is inaccurate. The 1979 bilateral agreement is far narrower in scope than the U.S.—China bilateral WTO agreement. For example, it does not provide comprehensive coverage for services, nor does it require the elimination of state trading or discriminatory taxes and regulations. The 1979 agreement also does not provide for the enforcement of commitments through WTO dispute settlement. In addition, the WTO Working Party on China's accession is considering restricting the eligibility for China's agricultural market access opportunities to only those countries that apply the WTO to China.

Clearly if we do not extend PNTR treatment to China, U.S. goods, services and farm products will be seriously disadvantaged, if not virtually shut out of the Chinese market. Failure to grant PNTR treatment to China would give a huge edge to our Japanese, European, and Asian competitors in the Chinese market. This is not a risk we should take, particularly when we are being asked to do virtually nothing in our home market to gain so much.

Conclusion

Mr. Chairman, to secure the far-reaching benefits of China's WTO accession that are at our door, ECAT members urge the members of this Committee and the Congress to act early this year to approve PNTR treatment for China. We have all the elements in place to achieve this objective. The President is to be commended for making enactment of PNTR a top priority and putting in place a top-flight team of Administration officials headed by Secretary of Commerce Bill Daley and Deputy Chief of Staff Steve Richetti to build a national consensus for PNTR. I am also encouraged by the continuing support for PNTR from you, Mr. Chairman, the members of this committee, and other members of the House—fueled by the realization that China's WTO accession is a national priority and must not become a partisan issue. In addition, I and many other representatives of the agriculture and business communities are working together to bring the message home to all Americans of how international trade and investment, including trade and investment with China, contribute to our standard of living.

Mr. Chairman, I want you to know that we are working flat out, both here in Washington and in congressional districts across the country, to make the case for China PNTR. ECAT member companies are out in full force contacting members here in Washington and in their local districts. We are also supporting grass roots efforts on China PNTR through ECAT's Trade: Discover the Opportunity employee trade education program. The business and agriculture coalitions for U.S.—China trade are actively coordinating their efforts on China PNTR and we have helped create a special web site at *www.business4chinatrade.org* to help broaden our activities.

With the advent of our historic bilateral agreement with China and China's WTO accession, "Opportunity Knocks." America must have the courage and foresight to answer that knock at the door by granting PNTR treatment to China. I thank this committee for your leadership on this issue and this opportunity to testify.

Chairman ARCHER. Thank you, Mr. Micek.

Our last witness in this panel is Mr. Trammell. Welcome and you may proceed.

STATEMENT OF LEON TRAMMELL, CHAIRMAN AND FOUNDER, TRAMCO, INCORPORATED, WICHITA, KANSAS, AND MEMBER, INTERNATIONAL POLICY COMMITTEE, U.S. CHAMBER OF COMMERCE

Mr. TRAMMELL. Mr. Chairman, thank you for allowing me to move up.

Chairman Archer, members of the Committee on Ways and Means, I am Leon Trammell, chairman and founder of Tramco, Incorporated in Wichita, Kansas. I am here today on behalf of the U.S. Chamber and small businesses.

Tramco is a 33-year-old company employing approximately 160 workers in Kansas, where we design and manufacture conveying equipment. You can find our environmentally friendly systems loading trains with grain in mid-America, transporting cement in Morocco, or moving wood chips in a particle-board factory in Canada. Thanks to the persistence of Tramco's sales force over the last 15 years, you can find Tramco conveyors in China.

Today I am appearing on behalf of the U.S. Chamber of Commerce. I am a representative of the tens of thousands small- and medium-size chamber members whose future and whose workers' jobs increasingly depend on sales to foreign markets like China.

I am here to urge you to support permanent normal trading relations for China. The U.S. Chamber, with the support from companies across the nation like Tramco, is leading an aggressive, nationwide, grass-roots initiative to explain the benefits of the U.S.—China WTO agreement.

I arrived a day early so I could talk with my Member of Congress, Congressman Tiahrt, about the importance of this agreement to my business. I am confident that we are making progress and that more and more Americans are getting the true and full message.

I am here as a representative of small- and medium-size businesses. Companies employing fewer than 500 workers account for well over a third of the merchandise shipped to China.

When Tramco first went to China in 1985, the grain industry's idea of transporting its product was one farmer, one sack of grain, and one bicycle. Things are different today thanks to 15 years of rapid development. Tramco is exporting our product and supplying engineering expertise to cereal food factories, ship loading and unloading facilities in China.

These opportunities create jobs. Every $125,000 in foreign sales will support one employee for one year.

I will not dwell on the benefits of the U.S.—China WTO agreement. You have heard them all before, and they are too numerous to go into at this time.

Let me put the benefits of this agreement in the simplest terms possible: China has some of the most restrictive barriers of the 35 countries in which Tramco does business.

Remove those and China becomes a market of limitless potential for small business across the country.

China accounts for approximately 10 percent of Tramco's international sales. These sales not only support additional workers, they mean a proportional increase in Tramco's purchases of steel, paint, and other raw materials from our American suppliers.

Many of our vendors may never have had their passports stamped, but they enjoy increased business when Tramco has more overseas sales.

I think the U.S.–China WTO agreement sells itself. China makes all of the concessions, and companies like Tramco get access to one of the most important markets in the world.

I hope the full text of the agreement will be released soon so that all Americans can see for themselves how good this historical agreement is.

However, the agreement will not help the small businesses unless we grant permanent normal trading relations to China. If Congress fails to act, other WTO members will reap the benefits of the agreement that U.S. trade negotiators hammered out with China. American companies will sit helplessly on the sidelines.

Some opponents of the deal have said that Congress will lose leverage by extending PNTR to China. I believe this to be false. Withholding PNTR would isolate Chinese officials such as Prime Minister Zhu who argue for liberalization and improved relationships with the United States. It would also isolate those pressing for greater liberties.

Granting China PNTR will not deny any member the ability to express his or her concerns about U.S.—China relations. If China were to ever seriously threaten our interest in the region, I am confident that Congress would take swift actions, unimpeded by China's PNTR.

Finally, the annual NTR process handicaps American businesses. This continues to add an element of uncertainty to our business dealings with the Chinese that the Europeans and the Japanese do not face.

We at Tramco need to stay engaged and keep building relations with our customers, not be undermined by threats by our Government to turn the relationship off and on like a light switch.

The U.S. Chamber hopes that the House will not wait long to vote on China's PNTR status. We already have a foundation on which to take a vote. The U.S.—China WTO agreement contains most of the major components that will be in the China final accession protocol.

A few WTO members, like the EU, have yet to finalize their WTO negotiations with China. WTO rules require that any additional market-opening measures won by the Europeans or others must be given to the U.S. companies as well. In other words, in the final terms of China's accession, the WTO can only get better. It is a win-win.

We have an historic opportunity to secure broad and more consistent access to China's markets for small businesses like Tramco. As a person who signs the paychecks that support 160 families, I know that opening China's markets means greater sales and a more certain future for small businesses like us. I hope we have the wisdom and insight to seize this historic moment.

Thank you, Mr. Chairman. I will be happy to answer any questions.

[The prepared statement follows:]

Statement of Leon Trammell, Chairman and Founder, Tramco, Incorporated, Wichita, Kansas, and Member, International Policy Committee, U.S. Chamber of Commerce

Thank you, Mr. Chairman, for the opportunity to testify today on the critical issue of US-China trade relations. I am Leon Trammell, Chairman and founder of Tramco, Incorporated of Wichita, Kansas. We are a 33-year old company employing 160 workers in Kansas, where we design, manufacture and sell conveying equipment. You can find our conveyors loading trains with grain in the American Midwest, transporting cement in Morocco or moving wood chips in a particle-board plant in Canada. During the last decade, we entered a new market with high growth potential for us—China.

Today, I am appearing on behalf of the US Chamber of Commerce, where I serve as a member of the International Policy Committee, which shapes the Chamber's international policy positions. The US Chamber is the world's largest business federation, representing more than three million businesses and organizations of every size, sector and region. Almost 96 percent of the Chamber's members are businesses that employ 100 or fewer workers. I am delighted to have this chance to provide you with a small business owner's perspective on why it is so important for you to grant permanent normal trade relations (PNTR) to China.

The US Chamber has long supported China's entry into the WTO on commercially acceptable terms. By joining that organization, China will have a stake in making the multilateral trading system work and an incentive to adhere to the rules. The US-China WTO agreement will provide a strong commercial anchor for our bilateral relationship, which has weathered some stormy moments in the last few years. In order to bring home to American businesses, workers and farmers the unprecedented concessions that China has made as part of its bid to join the WTO, we must grant China PNTR. Doing so will not only give an enormous boost to large and small businesses engaged in trade with China, it will end an annual renewal process that added uncertainty to business dealings with China.

Explaining the Benefits of China PNTR

Like many people here today, I was in Seattle for the WTO Ministerial Meeting. I went as part of a US Chamber delegation. The demonstrations by labor and environmental groups showed the extent to which many segments of the public do not understand the benefits of international trade. One of the starkest examples of this was the decision by the men and women working at Seattle's ports to walk off their jobs to join the anti-WTO demonstrations. Most of these workers' jobs would not exist without exports and imports moving through the ports. I believe this lack of understanding of the benefits of trade contributed to the failure of the Seattle WTO meeting. The American business community has stiffened its resolve to make sure that the same thing does not happen to China PNTR.

The US Chamber, together with coalitions across the country made up on companies like Tramco, Inc., is leading an aggressive nationwide initiative called TradeRoots China. This initiative is rapidly building support around the country for the US-China WTO agreement and China PNTR. The five principal goals of the program are:

- To shore up and sustain pro-China-trade coalitions at the grassroots level in 66 congressional districts in 27 states;
- To identify and mobilize community leaders as pro-China-trade advocates in each district;
- To partner with the governor of each state to communicate the local benefits of China trade;
- To share China trade success stories through local media, using a vigorous communications campaign; and
- To serve as a one-stop information resource on US-China trade—on the web and off the web—from everything from state and local trade statistics to success stories.

The TradeRoots China program leverages the federation of state and local chambers of commerce and thousands of the US Chamber's small business members to carry our message of support for China PNTR to the public and Members of Congress. I arrived a day early so that I could talk with my Member of Congress about the importance of the US-China WTO agreement to my business and workers. I am confident that we are making progress and that more and more Americans are getting the true and full message.

China's Accession to the WTO is a Win for Small Business

The Fortune 500 is well represented here today. You often hear about what large U.S. corporations are doing in China. What you do not hear so much about is how involved small and medium-sized businesses are in trade with China.

Small and medium-sized companies are a growing share of US exporters to China. The US Department of Commerce found that 82 percent of all US exporters employed under 500 workers. These companies are also responsible for a growing share of total US shipments to China. In 1992, small and medium-sized companies accounted for 27 percent of all merchandise shipments to China. In 1997, that figure was over 35 percent.

Like many small businesses, Tramco started doing business in China because of the immense potential there. When we first went to China in 1985, the grain industry's idea of transporting its product was one farmer/gardener carrying one sack of grain on one bicycle. There was no mechanized conveying. In fact, when grain was loaded on to ships, it was not unusual for the farmer to carry sacks of grain on to a ship and dump them by hand into the ships' holds. Today, things are different thanks to ten years of rapid development.

China has some of the most restrictive barriers of the 35 countries in which Tramco does business. The US-China WTO agreement will tear down those barriers. China will make enormous concessions to open its markets to America's leading products and services, creating new opportunities for American companies, workers and farmers. These new market opportunities will support US jobs and US economic expansion into the new century.

Because it is so comprehensive, there is not enough time for me to go into all of the benefits of this landmark agreement. I would like to highlight just a few that are significant for us.

- China's agricultural tariffs will be cut in half by 2004. There will be even deeper cuts on US priority products like beef and pork. In addition, barriers to US corn, cotton, wheat, rice, barley, soybeans and other products will be eliminated. We expect greater demand for our conveying equipment to move American grains into China.
- Industrial tariffs on US products will fall from an average of 25 percent to 9.4 percent by 2005, making our products more competitive within the Chinese market.
- American companies will have full trading rights to import and export without going through a local trading company. Perhaps even more important, US companies will be allowed to distribute their own products in China, and to own and manage distribution networks, wholesaling outlets and warehouses.
- China will quickly phase out restrictions on the right of US companies to perform their own independent marketing, after-sales service, maintenance and repair services, and customer support. This is especially important for Tramco, which believes that repeat sales come from maintaining close contact with the customer after the initial sale.

This market-opening will create new sales opportunities in China for small businesses like Tramco. Every $125,000 in foreign sales can support a new job at our facilities. The benefits do not end there, however. Tramco and other small businesses also supply inputs and services to larger corporations such as those represented here today. As we have heard, these corporations expect to see much greater demand for their products as China's market opens. Thus, even some small businesses that do not export to China directly will be able to attribute an increase in sales to the agreement by virtue of their supplier relationship with companies that do.

A final point about the US-China WTO agreement. Although the Administration has taken steps to make many details of the agreement available, I hope that the full text will be released soon so that the American public can see for itself how good the agreement is. The agreement will sell itself.

China PNTR Locks in the Benefits of the US-China WTO Agreement

You have already heard this point before but it is worth making again: The United States will not receive the benefits of China's joining the WTO unless it grants China PNTR.

GATT/WTO principles and the leading WTO scholars are crystal clear on the need to grant China, as a WTO member, unconditional normal trade relations. If the United States does not hold up its end of the deal, other WTO members will reap the benefits of the agreement that US trade negotiators hammered out with China, while American companies sit helplessly on the sidelines.

I can think of no greater tragedy than to let this opportunity slip through our fingers. It is somewhat like standing at the railroad station waiting for the train, and as it rumbles down the track, it does not stop for you. What's worse, it has your foreign competitors on board.

I am not afraid that granting China PNTR is going to result in a flood of cheap Chinese goods into the US market. Chinese producers already have access to our market. Tramco has already demonstrated that it can compete with foreign producers that have low labor cost because we are more efficient and have a more reliable product. What we cannot do is compete in the foreign producers' own market if they are protected by high tariff walls and non-tariff barriers.

Some critics argue that Congress will lose leverage by extending PNTR to China. They claim that the annual NTR debate is a useful way to prod China into improving its record on human rights and religious tolerance. Unfortunately, neither is true. The living conditions and freedoms of the average Chinese citizen have improved faster during the last 25 years of US-China engagement than during the period when no relations existed. Withholding PNTR would isolate Chinese officials such as Prime Minister Zhu Rongji who argue for liberalization and an improved relationship with the United States.

I would also like to point out that any Member can at any time express his or her concerns about China on the House floor. Granting China PNTR does not deny Congress this ability. If China seriously threatened American interests in the region, I am confident that Congress would take swift action unimpeded by PNTR.

The US Chamber hopes that Congress will not wait long after this hearing to begin the debate on China PNTR. As you may know, the Chinese must still complete their negotiations with the Europeans, Brazilians and a handful of other WTO members. However, it is not necessary to delay our consideration of China PNTR based on Europe's time table. The US-China WTO agreement contains most of the major components that will be in China's final accession protocol. WTO rules require that any additional market-opening measures negotiated by the Europeans or others must be extended to US companies as well. Thus, the final terms of China's accession to the WTO can only be improved over the already remarkable US-China agreement.

Conclusion

The US Chamber believes that we have an historic opportunity to secure broader and more consistent access to China's markets. As the person who signs the paychecks that support 160 families, I know that opening China's markets means greater sales and a more certain future for small businesses like my company. I hope that we have the insight and wisdom to seize this moment.

Thank you, Mr. Chairman. I would be happy to respond to any questions.

Chairman ARCHER. Thank you, Mr. Trammell.

Before I yield to members, the Chair observes that two witnesses originally scheduled to be on this panel were forced to leave to meet other engagements, and without objection, their written statements will be inserted in the record. That is Mr. Maurice Greenberg and Mr. Frederick Smith.

Now, does any member wish to inquire?

Mr. RANGEL. I do.

Chairman ARCHER. Mr. Rangel.

Mr. STARK. Mr. Mack, after you have heard all of this testimony this morning, haven't your views been changed dramatically that this is just win-win? I mean, you are surrounded.

Mr. MACK. My testimony, Mr. Rangel, did not mean to imply that this deal was not good for business. We think that it is. So, no, it has not changed at all. We think that even though it is good for business, and even though it affords opportunities, those that work in this country, the environment cannot be given second place.

And, beyond that, the workers in China, we don't see the elimination of the annual review is really going to do anything for that workforce in China because they really have no ability in that system to improve their conditions.

Mr. RANGEL. Okay. So suppose we just jack it up a little bit and say that there are tremendous opportunities for business, for American business, for agriculture, for farmers, for industrial goods, for insurance, financial services, that it is just a tremendous opportunity, it is going to create a lot of jobs, and assuming that you agree with all of that, then I would agree with you, that it is not just win-win, that there would be some losers in all of this because it just makes some sense that if state-operated factories can do something in China for less money and without a whole lot of union standards, that somebody is going to lose their job. And I think that is what progress is all about, but I would be here to see what we could do to ease the pain or to protect those people.

My question to you would be: A lot of these jobs that you are agree that we could get if we made permanent the normal trade relationship, would you agree that these opportunities would not be available if we didn't go along with the agreement; that the access that we negotiated would be denied us even though other countries could enjoy it?

Mr. MACK. Mr. Rangel, that is not my understanding of really what we are dealing with here.

Mr. RANGEL. No, no, no. Listen. I am going to get back to what really you are dealing with here. I am just saying, on the other side where you and I agreed, that the winning part of it, which you agreed, is there is going to be a tremendous amount of jobs here. And the Teamsters, as I recall, have gone far beyond trucks. I mean, you have professionals, white-collar jobs. So—

Mr. MACK. I may have misspoke myself. I did not intend to imply that there are going to be a tremendous number of jobs in this country. There are going to be a tremendous number of jobs in this country that we are performing now, as we see it, that will be performed in China because of the disparity in the labor rates.

Mr. RANGEL. Do you challenge the fact that the markets in China will be open to American businesses and services and that there would be a tremendous number of new jobs created in the United States of America as they provide financial service, information technology, all types of insurance, that the farmers in selling rice and beans and wheat and cotton, do you really think that there is not going to be a tremendous surge in exports to China, which are now restricted because of their tariffs and the restrictions that they put on American exports?

Mr. MACK. I have no reason to believe that we are going to see any great surge in exports to China. I mean, if we look at NAFTA and Mexico as an example of that, that was the same story that we heard there. There wasn't going to be a job loss in this country.

Mr. RANGEL. Okay.

Mr. MACK. Sixty-seven companies that testified on NAFTA said they were going to increase jobs in this country if, in fact, it was granted.

Mr. RANGEL. Okay.

Mr. MACK. NAFTA was granted. Sixty of the 67 companies have actually cut jobs in this country. So I don't buy the promise.

Mr. RANGEL. Well, first of all, I am going to stick with you to see what we can do about the job loss, but, quite frankly, you have to walk with me in terms of seeing the contracts that are ready to go if this deal goes down, which will create a lot of jobs and, assuming that your union and others continue to diversify, I would think a lot of new union members.

But let's get back to the human rights violations, the labor violations, the lack of standards in the environment, and the dictatorial type of government. Assuming that this Congress does nothing, how, Mr. Mack, do you think we can get a better handle on those things that you and I are concerned with if we just say we are not going to reward you, we are not going to normalize the relationship, we are not going to support your entry into the WTO? Do you think that gives us a better handle to deal with some of these injustices that are in your testimony?

Mr. MACK. Yes, I do.

Mr. RANGEL. How?

Mr. MACK. I think the annual review continues pressure on China to improve the freedoms in that country. Among the freedoms is the right to organize and the right of workers to improve their conditions through some form of bargaining or some form of collective bargaining, contract negotiation.

Mr. RANGEL. Why would we review it at all? I mean, suppose they say that you can do what you want and we are going to do what we want, you are not a party to our deal with the WTO, we have no deal with you?

I will put it another way: What right would we have to review what China would do?

Mr. MACK. Well, as I understand it, we have got the right to review, at least now annually, progress or lack of progress that is made with regards to China and the United States on trade.

Mr. RANGEL. And if they were not making progress, then what sanctions would we have if we didn't okay any agreement with them, anyway, we weren't doing business with them?

Mr. MACK. It is my understanding that we have got sanctions under the bilateral trade agreement that currently exists.

I guess the point here is that we are not opposed to this question of trade, and I don't want to convey that to this committee. I think to a large degree we really have a lot in common. There are jobs that will be created by trade. We are in favor of trade. But in that whole process, what advantages or what can—what path do we take to secure the maximum for all that are involved in this process, not just—

Mr. RANGEL. What path would you have us to take?

Mr. MACK. The annual review, continuation of the annual review. It doesn't do—

Mr. RANGEL. If we review it and don't make it permanent, they can't go into WTO.

Mr. MACK. No—

Mr. RANGEL. This agreement that we negotiated doesn't go into effect.

Mr. MACK. No, Mr. Chairman, that is not my understanding. China is going to go into the WTO whether there is annual review or NTR. They are going to be—

Mr. RANGEL. But we will not be the beneficiaries of the agreement.

Mr. MACK. It is my understanding that we will be the beneficiaries of any agreement that China strikes with any member of WTO because we belong to WTO. The impression—

Mr. RANGEL. There is a big difference of opinion here. There is a big difference of opinion.

Mr. MACK. That is our opinion of the—we would like to—

Mr. RANGEL. My time has expired, but I want you to know, Mr. Mack, that I think this discussion warrants more than 5 minutes the way we are, and I would welcome a meeting with you and other labor leaders and experts in the field to admit that there are winners and there are losers, and a lot of your people are going to be losers, and I know that. And I think what we have to do is to see what we can do to prevent those people from being hurt as we open up these new markets.

Thank you for being so lenient, Mr. Chairman.

Mr. MACK. We would welcome the opportunity.

Chairman ARCHER. Mr. Crane?

Mr. CRANE. Mr. Mack, how many Teamsters jobs have been lost in the last, say, 5 years?

Mr. MACK. I don't have the—I wouldn't have the specific information with me, Mr. Crane.

Mr. CRANE. Well, maybe not the specific figures, but—

Mr. MACK. I can—approximately?

Mr. CRANE. Yes.

Mr. MACK. I would say somewhere in the neighborhood of 50,000 to 100,000.

Mr. CRANE. 50,000 to 100,000 out of how many total?

Mr. MACK. Out of how many what?

Mr. CRANE. How many total Teamsters?

Mr. MACK. We have 1.4 million.

Mr. CRANE. All right. And what is the fundamental cause for the loss of those jobs?

Mr. MACK. Most often, it is movement of work across the border into Mexico, oftentimes in the maquiladoras, sometimes into the interior. Jobs that are labor-intensive jobs that are performed in this country are taken across the border where the labor costs are cheaper and there is no protective collective bargaining process that would change that.

Mr. CRANE. So the Teamsters are not just the truckers?

Mr. MACK. Oh, no. Teamsters are food processing, warehouse, production, trucking—a lot of different industries and crafts. Cargill.

Mr. CRANE. Because I would think that the truckers would actually increase their membership with our expanded trade.

Mr. MACK. There probably has been a degree, at least probably stable in terms of trucking. But, of course, we battle on this whole question of cross-border trucking, too. I mean, that is another issue that is before the Congress that we have a deep interest in, which would be probably just the other side of NAFTA. Instead of the exportation of jobs to Mexico because of NAFTA, we would have the importation of workers for transportation purposes into the United States.

Mr. CRANE. You mentioned in your statement that if we extend permanent NTR to China which guarantees permanent access to the U.S. market, we will be sending a message that no matter what promises China has failed to fulfill, there will be no consequences in terms of trade with America.

Do you honestly believe we wouldn't retaliate?

Mr. MACK. That we would not retaliate?

Mr. CRANE. Yes.

Mr. MACK. I think we are going to be very restricted because you would be, I think, looking at this WTO process. And as we know, WTO—are you talking about national security or just regular trade items?

Mr. CRANE. Well, any trading partner that is a member of WTO that does not live up to WTO principles being a member, you can retaliate against any country that doesn't measure up to those standards. So if China is a permanent member of WTO, we can retaliate anytime they don't live up to the standards.

Mr. MACK. Retaliation, you mean going through the WTO dispute process?

Mr. CRANE. Well, the dispute process, right. You can retaliate then as we are reviewing, you know, retaliation against the EU right now on bananas and beef hormones.

Mr. MACK. The United States, as I understand it, would have the opportunity to go through that dispute process. We as an organization do not have a lot of confidence in that process. That is what Seattle was in large part about, the WTO.

Contrast the WTO to us here today. Here you have got a tremendous, to the credit of the committee, diversity of opinion on issues. You have people who come up and have the right to speak and to have their say.

The WTO, on the other hand, is a closed process where only certain individuals are allowed to participate. We don't really understand who the judges are that make the decision. But those that have an interest in that process can't be there, can't make their statements, and can't offer their opinions.

Mr. CRANE. Well, let me reassure you of one thing, and that is, we can retaliate against anybody we want to retaliate against, and that is without a WTO decision.

Now, if we take that kind of action without a WTO decision in our favor, that country that we are taking that action against can in turn retaliate against us. But, I mean, you can do that anytime you want. You don't like the way they are playing the game, say, okay, we are not going to play the game with you. And we still retain the absolute authority to get out of WTO anytime we want to get out of WTO.

So, there is nothing, you know, that is eternally binding, and Congress can act based upon what it may determine to be the offenses committed by a trading partner. And what we have done, then, is to isolate ourselves.

But keep in mind that the beneficiaries of this are the United States, not China. China continues as usual, except for the fact that it suddenly has access on an increased basis to about 140 trading partners worldwide. The United States is the country that is the beneficiary out of this because suddenly, with those reduced barriers to trade, we can access their market. I mean, access it, the estimates are $2 billion a year in increased agricultural exports to China.

So if we don't take advantage of that kind of an opportunity, we are shooting ourselves in the foot.

Mr. MACK. I respectfully disagree. We have got the 1979 bilateral agreement here, and by this agreement, if NTR status is not granted, any favored-nation agreements that China reaches with any country under the WTO will be applied to the United States. So it does not put this country, it does not put business at a disadvantage if NTR is held off and we continue annual review, in our opinion.

Mr. CRANE. Thank you.

Chairman ARCHER. Mr. Hulshof?

Mr. HULSHOF. Thank you, Mr. Chairman.

Mr. Erisman, I make this point not to embarrass you at all, but I think you are probably the only witness on this panel who lost money in this past year.

Mr. ERISMAN. Yes.

Mr. HULSHOF. Let me first of all ask Congress, of course, provided some assistance to the American farmer in Missouri. Do you have an estimate as to how much that emergency assistance provided as far as net farm income?

Mr. ERISMAN. Congressman, in my prepared remarks, I stated that 75 percent of the net farm income in Missouri last year was due to Federal Government payments. That is a very unfortunate occurrence as far as most of us are concerned, but it is what it takes to keep us out there.

Mr. HULSHOF. Mr. Erisman, as an independent producer who feeds 129 people in the world, do you want to farm for a government check?

Mr. ERISMAN. Well, you already know the answer to that one, sir. I would much rather work for the market in a free market when we can trade with all the partners in the world and take the profits that there are from the free economy than to have to depend on the government. The only time that I would look to government for assistance is when we are facing situations as we did last year with a complete collapse of hog prices, or in most of your district, the Ninth District this past year, we had a half bean crop and less than a half corn crop, so we had a natural disaster, as well.

Mr. HULSHOF. Do you agree or disagree with the opinion that Mr. Mack offered that reducing tariffs to China under this bilateral agreement, especially regarding beef from 45 percent under current law down to 12 percent, or as you noted in your testimony, pork from 20 percent down to 12 percent, do you agree or disagree that exports will not increase to any substantial degree? I think I have paraphrased your testimony correctly, Mr. Mack.

Mr. ERISMAN. I guess I fail to see how we can avoid having any increase in exports when you are bringing the other 20 percent of the world's population on board. I mean, I know I keep going back to that same thing, but how can we wall off this part of the potential market and not be able to sell to those folks that desperately, in some cases, need our products?

Mr. HULSHOF. Mr. Mack, I appreciate very much the tone of your testimony. I really do. I was not in Seattle, but having watched what happened in Seattle, I think it is a benefit that we have in a free society in this country that we can have an exchange of ideas and maybe have disagreements. I really do. I compliment you on the tone of your discourse today.

Part of what you have said, though, and Mr. Rangel asked you some questions regarding, for instance, human rights and labor rights, environmental concerns. Is it your belief that if we isolate China, that is, that we have economic isolation, that we would have more progress or less progress on those areas that you have talked about?

Mr. MACK. I did not mean to imply economic isolation. We have relations with China and I would expect those relations would continue. So the gist of my testimony was not to provide economic isolation. Really, the only thing that we are talking about and arguing here for is a continued annual review of the relations between China and the United States.

Mr. HULSHOF. I know my time is short. Something that struck me was Ms. Barshefsky, who said—first of all, do you think that we have been making at least some progress regarding human rights and labor and the environmental concerns in China?

Mr. MACK. Precious little.

Mr. HULSHOF. Well, she says that if no progress is being made, then we should not engage with China, that we should not have normal trade relations, and then if progress is being made, then why not have permanent NTR. In my time, I am not going to be able to ask you to comment on that because my time is drawing short.

Again, the only other comment I would have, with all due deference to you, sir, this is not NAFTA. This is heard periodically and through your testimony NAFTA and going back to the failures of NAFTA. I mean, we probably have some agreement among members here as to who were the winners and losers, as Mr. Rangel points out, regarding trade agreements regarding NAFTA. This is not NAFTA. This is a completely separate bilateral agreement with the People's Republic that, as Ms. Barshefsky says, has been going on since 1986, negotiations, 14 years, and that have brought this document forth.

I do appreciate, Mr. Chairman, the serious consideration that has been given today and I appreciate all of your testimonies today, recognizing my time has expired. And Mr. Erisman, I particularly appreciate you making the trip from your family farm in Audrain County, Missouri, to come here to try to shed a little light and maybe some common sense on those of us who have to grapple with this tough decision. Thank you.

Mr. CRANE [presiding]. Thank you.

Mr. Levin?

Mr. LEVIN. Thank you, Mr. Chairman. I think, once again, the questioning and the responses have brought a note of realism to our discussion. There are going to be losers as well as winners, and it is, I think, counterproductive for us to just deny that.

One of the issues is what kind of balance there is going to be between winners and losers and how do we minimize the number of losers and maximize the number of gainers and what happens to those who are impacted negatively and what steps we can take to move China in the right direction and that a yes vote is no magic wand. We had better be realistic.

Mr. Mack, I want to suggest, there does need to be some further discussion about the 1979 agreement and its continuing impact, because clearly, there would be no access by the U.S. to the dispute settlement procedures if there is not permanent NTR. I think there is serious question whether or not China would have to provide us what they were providing every other nation in most respects. The weight of the argument may be except in limited areas, they would not. So again, I think we need to be realistic on all sides of this, but surely there are going to be some losers as well as winners. Mr. Mack, you are right when you point out they are not just shipping toys to the U.S. It is much beyond that already.

Now, I want to ask about another area, again urging realism, so Mr. Chen, I am going to pick on you.

Mr. CHEN. Okay.

Mr. LEVIN. You say 95 percent—where is that quote, that is pretty striking—

Mr. CHEN. Ninety-five percent piracy rate on software.

Mr. LEVIN. Yes. BSA estimates the piracy rate level for packaged software applications at 95 percent in China. When I was in Beijing in December, when I went out right away after landing and I was walking with somebody, the first person I met on the street wanted to sell me some pirated software.

Mr. CHEN. Right.

Mr. LEVIN. We moved on. But then later on you say, the WTO dispute settlement has already succeeded in bringing countries into compliance with their TRIPs obligations relating to copyright enforcement, has worked effectively for U.S. copyright owners. This is why I think we need to consider additional enforcement mechanisms within the United States and probably within the WTO, because this settlement dispute system has worked bringing countries into compliance, countries that are not heavily engaged in this kind of counterfeiting, in most instances, is that not true?

Mr. CHEN. It is. I think we have to look at it at different levels. What is exciting to us is it created a platform for us to have international or global-wide discussions to bring the issue on the table so that nobody could really duck the thing. They do need to enforce it. They do need to put it on the books. And if they put it on the books, whether they are going to enforce it or not remains to be seen.

Mr. LEVIN. Okay, but that means, if I might interject, that is why I think the tone, the words are not realistic, that the dispute settlement system has already succeeded in bringing countries into compliance. That makes it sound just like that.

Mr. CHEN. No, it is—

Mr. LEVIN. My quarrel with so much of the argument is, it is just like that in the eyes of too many people.

Mr. CHEN. Right.

Mr. LEVIN. And I do not think that is realistic about software in China, is it?

Mr. CHEN. Probably not, but let me suggest a few things. There has been excellent progress in the case of Sweden, for example, that we use this process—

Mr. LEVIN. In Sweden?

Mr. CHEN. Sweden, yes.

Mr. LEVIN. But that is so—

Mr. CHEN. Allow me to finish, please, Mr. Levin. There has been progress, major progress in Hong Kong. There has been major progress in China in not exporting, by shutting down the CD-ROM whatever factory they produced the pirated software to export to the other Southeast Asian countries. So there has been progress, I mean, obviously not even close to our satisfactions, and what we would like to do is to get more and more weapons. I do not believe that is the panacea. I do not believe that, therefore, just like that will happen. We are going to continue to work it. We are going to be partners. We are going to try to make our influence more felt, and we will feel it on the world stage and that is what we want to do.

Mr. LEVIN. I will close. The red light is on. I just do think that you and others need to work with some of us to see if we can build in some—if this is going to happen as part of it, it just cannot be assumed it will work like this.

Mr. CHEN. No, I agree.

Mr. LEVIN. I think that statement about it has already succeeded, people will misread it as if it is automatic in application to China. No person I know who is close to it really—I do not think you believe it. Thanks very much.

Mr. CRANE. Mr. McCrery?

Mr. MCCRERY. Thank you, Mr. Chairman.

Mr. Chen, while you are hot, let me continue with you. Are you concerned that if permanent NTR is not granted to China, there will be a cost to our domestic high-tech sector?

Mr. CHEN. There will be a cost to the—

Mr. MCCRERY. Our domestic high-tech sector?

Mr. CHEN. Absolutely.

Mr. MCCRERY. Can you expound?

Mr. CHEN. Absolutely. Thank you for the questions. I think, as a matter of fact, that the uncertainty on an every-year basis causes us to not, and especially the smaller companies, not being able to really invest for the long-term in their market. On the other hand, on the other side of the ocean, they have this concern about uncertainty and, therefore, they are not going to be true partners with us. So everything is going to build on the very short-term. Forget about whether they retaliate or not. I think they need our software, period, whether they get it from somewhere else or not, but I think they need our software, or other technology. So the point is, yes, it will cost us jobs. It will cost us economic progress inside the United States because we can invest long-term.

Mr. MCCRERY. Well, thank you, and Mr. Mack, I, too, appreciate your testimony and the tone of your testimony, but I do think it is somewhat disingenuous to continually point out that jobs were lost under NAFTA. Yes, some jobs were lost under NAFTA, and for those people who were affected by those job losses, we certainly sympathize with them, and as Mr. Rangel said, we want to find ways to try to help them get retrained, reeducated, whatever is necessary to get them a new job.

But the fact is that more jobs were created in the United States as a result of NAFTA than jobs were lost, and the Department of Commerce and the Clinton administration has pointed this out year after year. The fact is that United States exports to Mexico have risen 90 percent since NAFTA was enacted, 90 percent, almost doubled exports. That means we have sold more to Mexico since NAFTA was enacted. That means jobs were created here to produce those extra exports that have gone to Mexico.

Trade is not a zero-sum game. The United States' share of Mexico's imports has risen from 69 percent in 1993 to 74 percent in 1998. So, in other words, thanks to NAFTA, the United States has become an even more important trading partner with Mexico. We are selling them even more of their total import pie than we were before NAFTA.

So I want you to work with us in a collaborative effort to try to soften the impact in those areas that will be negatively impacted, and we know there will be as a result of any trade agreement and as a result, frankly, if there are no trade agreements. You are going to continue to have this evolution of the kinds of jobs that we have in this country.

So I would hope that your organization and others who oppose these agreements for whatever reason would look at the big picture and know that it is in the best interest of the United States as a whole to move forward and not move backward and then to be constructive in working with us to craft legislation that can help alleviate the problems that are associated with the progress that we are making. There are always going to be problems associated with the progress that we are making.

Now, I will give you a chance to respond, Mr. Mack, if you choose.

Mr. MACK. Thank you very much, Mr. McCrery. We welcome your views and the offer to work with us and the trade union movement to soften the impact that is going to be felt as we move down this road of trade. We are not attempting to stop trade, hold it up, or prevent it. It is going to continue and we are going to see, as has been described aptly here, winners and losers, and there is a real need to take into consideration the impact on the "losers," those members of ours that belong to organizations that have spent their lifetime in a job that are going to lose that job because the company is picking up, moving to Mexico, moving to China, or whatever it may be.

There needs to be a consideration of that impact, and in almost this entire process, we talk trade. That is one of our real frustrations, is there has not been, in our opinion, ample consideration for the "losers," and that we need, I think, to look at. We need to try to do something with regards to that, but there has been a tremendous reluctance on the part of business in this country to be able to address that and deal with it.

Now, the people who are sitting here are decent people. They are good people and they run good businesses, obviously. We have contracts with Cargill and they are good to work with. But when these decisions are made about relocation and going from one country to another, we have got to look at the impact upon the people who are involved and we need to look at some imaginative and valuable solutions to those problems that are not going to destroy the livelihoods of those people and that of their families. So we welcome the opportunity to work with you as this process goes forward.

Mr. MCCRERY. Thank you.

Mr. RANGEL. Will the gentleman yield on that?

Mr. MCCRERY. I do not have any time left, but if I did, I would use it because I would like to follow up, but in the interest of moving along and getting to the last panel, I will say thank you to the chairman.

Mrs. JOHNSON [presiding]. We also have another panel after this and five more questioners on this panel.

Mr. RANGEL. I just wanted to congratulate the gentleman for his line of questioning and also Mr. Mack's response, because I almost had Mr. Mack talking about the tremendous new jobs that would be created, but I gather his resistance is that nobody else on the other side is talking about the dislocation and the pain that could be caused by this.

I think more candid exchange, and you pointed out that NAFTA, certain people got hurt, and so a lot of business people do not want to talk about it. It did not happen. It did not exist. Win, win, win, win. And he is saying, hey, let us take a look and bring some balance to it and I think we do have time to have that dialogue. Thank you.

Mrs. JOHNSON. I think it is—

Mr. MCCRERY. Well, while that is true, Mr. Mack's testimony, with all due respect, was not, hey, trade is good for America. Let us work together to minimize the effects, the uneven effects of moving forward. His testimony was, doggone it, let us not pass this NTR with China. Let us stop this bilateral agreement with China—

Mr. RANGEL. Until we can—

Mr. MCCRERY.—and I was trying to point out nicely that I think he could have done better—

Mrs. JOHNSON. I would like to recognize Ms. Dunn.

Ms. DUNN. Thank you very much, Madam Chairman.

Mr. Chen, I wanted to follow up on your comments about the TRIPs agreement. We know that China has a huge problem with intellectual property piracy. The TRIPs agreement brought some strong new intellectual property protections for United States software and for entertainment, for pharmaceutical products, and I am wondering how much of an impact it will have when China is required to follow the TRIPs agreements. What kind of impact will this have on the protection of intellectual property, and could you also give us your thoughts on what kind of legal reform would be required in China to accomplish this?

Mr. CHEN. Okay. That is a pretty broad area, but first of all, the TRIPs agreements, the reason why we are excited about it again is it is a process. There is a documented process, which kind of links to your second part of the question, is one of the concerns of any businesses doing business in China—I am sure that everybody knows that in this room—is that there is an inconsistency in how the business law is being interpreted and conducted in China. They could kind of change the legal interpretation as it goes along. And that inconsistency will be controlled in a very dramatic fashion by being WTO members.

So with that comes the TRIPs agreement as a weapon that we could launch our complaint, address the dispute in a more consistent manner that every nation in that agreement or WTO membership would either adhere to, listen to, or understand. So that gives us a little bit more powerful platform.

Now, is that all itself enough? Personally, I think there is probably a lot more that needs to be done, and I think the BSA and all the software organizations and companies will try to rally with the Congress and try to figure out some other weapons over time. But this is at least a major weapon for us, a major first step.

So that, in addition to driving the legal system reform as part of the WTO, driving their currency, they way they valuate the currency, the trading, over time the legalization of RMB as international trade instruments, all those are very important aspects. Frankly speaking, without a WTO membership, that China be in there, they are not going to change. They are going to do whatever they want to do, as they want to do in the last ten years.

Ms. DUNN. Thank you very much.

Mrs. JOHNSON. Would the gentlelady yield for a moment?

Ms. DUNN. Yes, I yield back to the chairwoman.

Mrs. JOHNSON. Mr. Mack has to leave to catch a plane. Mr. Mack, I understand you have to leave to catch a plane, do you?

Mr. MACK. Yes, I do.

Mrs. JOHNSON. I just want to thank you for participating and wish you a safe trip. I am sorry you will not be able to stay, because I, too, am very concerned about, in general, the labor movement's focus on the jobs that are lost without any recognition of the jobs that are created. Many of us who worked hard on benefits for people who lose their jobs are allies, but you cannot ignore the benefits that are being achieved. Nothing is achieved through our annual review. It is big politics, just hot air, hot air on this side, hot air on that side.

I have never seen an annual review sift down to the guy on the line. But when I visited a plant where the manager was a longtime old friend of mine and heard how many months it took him to convince his Chinese employees that it was they who were going to reorganize the machinery and equipment and see what happened to them when they finally got that and did that. I will tell you, that is empowerment and it is having as much effect on those Chinese workers as welfare reform has had on women on welfare when they finally realized that getting the opportunity to have a job where they could choose, where they would have knowledge and education and advancement, I mean, I really think your evaluation of what will foster freedom and change in China simply on the ground running does not correlate either with my experience in America or my experience in China.

So I hope we will have a greater opportunity to talk about that, and then I am also concerned, which I know Jennifer is, with the airplane industry. I do not want Airbus to be selling into China. They will get so far ahead of us on profit, they will be able to invest so much more in R&D in ten years, we will be terminably behind in aerospace. And if we lose the initiative in aerospace and autos and machinery and equipment and software, we will not be the economy we are and the standard of living and the number of jobs in the Teamsters organization will be much diminished.

So I look forward to working with you on what about the people who are going to be hit with transitions, and I think the surge protection and everything is all right there for us to be constructive about. So I am sorry you have to leave, but I do know you have to leave, and taking the prerogative of the chair, I just had to make those statements and then I return the—

Mr. MACK. The parting shot, but—

Mrs. JOHNSON. I know.

Mr. MACK. We look forward to working with you, but we see nothing, we see no negative for Congress continuing annual reviews.

Mrs. JOHNSON. You see, you do not because you are assuming that if other countries sign on to an agreement with the WTO and China, that we will be part of it, and we believe that is not true. We have had testimony from the experts that is not true. So that means Airbus could sell into that market at ten percent, 20 percent, 30 percent less cost because they do not have the tariffs, and we will be stuck, just like in Chile, with a loss of jobs—

Mr. KLECZKA. Madam Chair—

Mrs. JOHNSON.—so I do not want to go on with that.

Mr. KLECZKA. I thought I was next to question, and I have time frames, too.

Mrs. JOHNSON. I will let Ms. Dunn finish. I put myself last in the line of questioning when I was offered the chair, so I am sorry.

Mr. MACK. Could I just make one other comment? The bilateral trade agrement in 1979, we think gives us those rights.

Mrs. JOHNSON. I know you do, and as my colleague, Mr. Rangel, said, we will look at that more clearly, but the body of expert opinion is against you. We need to straighten that ought. And if, in fact, we are right and you are wrong, then I hope you will work with us to rethink your opinion, because the consequences if we are right would be really devastating.

Mr. MACK. And vice-versa, and I want to thank you for your courtesy. Thank you very much.

Mrs. JOHNSON. Thank you. Congressman Dunn, you may finish your time.

Ms. DUNN. I yielded back my time. Thank you.

Mrs. JOHNSON. Mr. Kleczka?

Mr. KLECZKA. I also am sorry Mr. Mack has to leave, but in your defense, Mr. Mack, before you leave, I thought your testimony indicated that your recommendation to Congress was to do the annual review and not the permanent, so I did not hear what the acting chair heard, that it is no agreement at all, so I just wanted to correct that for the record.

But as Mr. Mack was being questioned and as he was giving his testimony, I saw some heads shaking no at the table, and so although we are not talking about NAFTA today, I think there are some analogies. I have to take issue with some of the facts and figures of Mr. McCrery, but I do not have my facts and figures here, but I am not going to stipulate at this point to the net job increase contention that he indicated. And clearly, we saw some increase in exports early on in NAFTA and that was because raw materials and machine tools are going down. But I think in the last couple years, that has shifted and now we are seeing more imports coming in. But again, NAFTA is not the issue here.

But I think what Mr. Mack is talking about is the fear of massive job displacement in this country, and let me ask Mr. Micek and Mr. Trammell to respond to that fear, to that concern that is not only shared by Mr. Mack but the district I represent in Milwaukee, Wisconsin, has that same fear. We have G.E. Medical, which we have seen move jobs down to Mexico. Master Lock, I met with the employees last week. There are 400 Master Lock employees today. Because of the operations of Master Lock in Mexico, that is going to be decreased to 67 in a couple of weeks. So that concern is real.

Could you two gentlemen allay the fears of Mr. Mack and people like myself that we have no fear that we are going to see massive U.S. job displacement if, in fact, we make this agreement with China permanent? Mr. Micek first.

Mr. MICEK. Thank you.

Mr. KLECZKA. And we only have five minutes, so we are going to have to try to—

Mr. MICEK. Let me try to address that. First of all, the agreement that has just been etched by Ambassador Barshefsky really is all about us leveling the playing field toward the United States. We have been disadvantaged in a very major way for a number of years, and thanks to some very artful negotiations, China has agreed to reduce tariffs on a whole broad range of items. Agriculture is one of the largest benefactors of this accession agreement. We have heard about the difficulty that the farmer gentleman here was having—

Mr. KLECZKA. Stick with the jobs, because right now, we have had trade with China for years. But now, with the agreement that has been negotiated, it will be easier for our employers to set up operations within the country. They will not lose their intelligence rights and those things that Barshefsky talked about. So let us talk about the jobs. If I were Honeywell, why not open a plant in China?

Mr. MICEK. Mr. Bonsignore is not here, but what happens in these cases is that if we set up a satellite operation, say, in China or wherever, back home, the R&D takes place. The support is here. Our business is somewhat different than theirs, which is more highly technical, but for the jobs that are created there, there are still jobs that are created back home. Admittedly, they are more skilled jobs, whether it is R&D or the planning, design of plants, what have you.

But I do not think that, from what I can see, that jobs really are lost. They are different kinds of jobs. We get into this business of winners and losers because jobs are being changed. But when we invest in China, there is always activity back home.

Mr. KLECZKA. So are you saying that for every high-tech or skilled job that is created here at the loss of a manufacturing job, that ratio would be about one-to-one on average?

Mr. MICEK. I could not make a comment, but given the kind of unemployment statistics we are looking at today, that must be happening.

Mr. KLECZKA. Mr. Trammell, could you respond to the same fears?

Mr. TRAMMELL. Well, we are a small company of only 160 people, but we market in 35 foreign countries. I have yet to go into a country that did not want Tramco to relocate there and ship back into the United States. That persists all the time. I cannot manufacture my product in China, in Mexico, and ship back to the United States and be cost effective for the simple reason the direct labor to build my product is about ten cents on the dollar. It would cost that ten cents to ship it from China or Mexico back into the United States.

Mr. KLECZKA. So you think the fear that there will be massive U.S. job displacement is totally unfounded?

Mr. TRAMMELL. Well, no, I would say it depends on the product they are building. If it is a pair or socks or something that is high labor, low material cost, low freight, then perhaps some of that is going to go.

I am an old guy. I remember 50 years ago it was Japan. Then it was Taiwan. Now it is China. Ten years ago, I shipped one of our largest orders to Taiwan, manufactured in Wichita, Kansas, and shipped to Taiwan. Three years ago, we just finished the largest order ever. It was a five-year project in Japan, in Nagoya, Japan.

So the American worker can compete around the world. He cannot compete with tariffs. The most favored nation status hits me in the face every year. I have a window—

Mr. KLECZKA. My time is expired, and I do not want to tick off the chair.

Mr. TRAMMELL. Thank you.

Mr. KLECZKA. Thanks.

Mrs. JOHNSON. Mr. English?

Mr. ENGLISH. Thank you, Madam Chair. I must say I am also disappointed that Mr. Mack had to leave. I was intrigued by his testimony, although I disagreed with some of his conclusions. I think it is worth noting that his labor union, because of their reputation for rigorous independence, enjoyed a certain measure of bipartisan regard in this institution and I was hoping to be able to pose a couple of questions to him, but I think that you three remaining gentlemen probably could also answer them and maybe provide a little different perspective.

Mr. Mack in his comments talked about the need to retain annual NTR review for China. Many of us have questioned the effectiveness of annual NTR since a phenomenon in the early part of the last decade where candidate Clinton campaigned as a strong advocate of sanctions and get tough policy with China and then was transmogrified into the Clinton administration and within a year or so had the exact opposite position.

My impression is that annual NTR review has very little impact on Chinese behavior. Mr. Trammell, you obviously have experience in China. What is your take on that?

Mr. TRAMMELL. Well, here is the—I am afraid that a lot of people do not understand how this annual normal trade, or we used to call it most favored nation status, how that hurts a capital manufacturing company like Tramco. We tell the Chinese, you know, we are going to renew and that happens by June 3. But China tells the Tramcos of the world, you have got from January 1 to December 31 to import into China duty-free. If it shows up after December 31, they threaten to put a 40 percent duty.

Most of the projects and capital equipment is where the United States is the most competitive all over the world, manufacturing here and shipping abroad. But most of those capital projects last three years, two or three years, when we have only 12 months to get our equipment over, rarely, rarely do we get involved or can we become even a playing partner because of this annual renewal of most favored nation. The Chinese threaten to impose 40 percent duty and there is not 40 percent profit. It takes you out of the picture.

Mr. ENGLISH. Mr. Trammell, as a representative of the Chamber of Commerce, is it your understanding, is it the Chamber's understanding that we will not enjoy the benefits of the agreement that Ambassador Barshefsky worked out with the Chinese without carrying our end, which is to pass permanent NTR? Is it your understanding that those two are locked together, or do you agree with Mr. Mack that we will enjoy the benefits regardless of what we do?

Mr. TRAMMELL. I am sorry, I cannot agree with Mr. Mack at all. My little company first ships more product into Mexico because of NAFTA, because it removed 40 percent duty.

Secondly, yes, speaking on behalf of the Chamber, we want permanent most favored nation status for China. It is imperative.

Mr. ENGLISH. Mr. Micek, any comment on any of those points?

Mr. MICEK. Just to second what Mr. Trammell has said. The annual review process is really quite ineffective. In fact, it does more harm than it does good for the reasons that he mentions. People have to plan on a longer term. Let us talk about food, for example, just very quickly. Food is one of the most basic of human rights. When you have a country as big as China, with 1.2 or 1.3 billion people, their food supply cannot be threatened on an annual basis. So the net effect is, rather than, in recent years, increase their purchases from us, China has actually become more self-sufficient than ever. And until we get away from this uncertainty, I am afraid that they are not going to see us as reliable suppliers. Permanent NTR would accomplish that.

Mr. ENGLISH. Mr. Chen, do you want to comment?

Mr. CHEN. Yes. I would like to comment as our ability to compete. There is an uncertainty in the potential inconsistency of the relationships on an annualized basis. It does not apply to our competitors in Japan or Europe. I used to work for a German conglomerate and they will put multi-year power plant projects together in China, multi-year airport plans together. I cannot see how the Chinese would deal with us and give us one of those contracts when every year they think we might yank the plug on them.

Mr. ENGLISH. Thank you. My time is up, Madam Chair. Thank you for your indulgence, and I really want to compliment this panel for making a significant contribution to our debate.

Mrs. JOHNSON. Mr. Nussle?

Mr. NUSSLE. Madam Chairman, I will pass. The last panel has to catch some planes, so I think we should keep moving.

Mrs. JOHNSON. Thank you. I appreciate that. I thank this panel very much for your input and your testimony, and having heard the discussion, we welcome any follow-on comments you may wish to make in writing.

Mrs. JOHNSON. Now let me call the last panel. You have been very patient, indeed. David Kronlage, President of the Delaware County Farm Bureau; Ann Hoffman, the Legislative Director for the Union of Needletrades, Industrial and Textile Employees; Mike Jendrzejczyk, the Washington Director of the Human Rights Watch; Robert Liuzzi, President and CEO of CF Industries; and Steve Appel, President of the State Farm Bureau of Washington State and Co-Chairman of the American Farm Bureau Federation.

We welcome you gentlemen and gentlelady. We will lead off with Mr. Kronlage, President of the Delaware County Farm Bureau from—actually, let me first yield to Mr. Nussle, if I may.

Mr. NUSSLE. Thank you, Madam Chair. Mr. Kronlage is a constituent of mine, and Dave, I had a 15-minute introduction that was unbelievably glowing, but I think what I will do is I will mail it to you because you and the other panelists have a plane to catch.

Let me just tell the members that, first of all, he is from Dyersville, Iowa, which many will remember is the field of dreams in the movie. That is where that was filmed. But more importantly, what I want to emphasize is that someone before had mentioned that they have hundreds of thousands of employees that are impacted. Dave has got one, himself, and his family, his three kids, his wife, Sherry. And interestingly enough, when we were preparing for this yesterday, I asked him, I said, what do your kids want to do when they grow up, hoping that, like his grandfather who came here from Germany and started the farm outside of Dyersville and then his dad that took over the century farm now, whether one of his kids, either Matt, who is 14, Callie, 11, Stephanie, 9, might be interested. He said, no, except the nine-year-old has expressed some interest, but he thought maybe she might grow out of it.

While that may sound funny, the unfortunate part is that we are losing something. So it is more than just what trade impacts today. It is also the future, and I am happy to have my friend and constituent, Dave Kronlage, here and I invite him to testify when the chair is ready.

Mrs. JOHNSON. Thank you, Mr. Nussle, and you may proceed, Mr. Kronlage.

STATEMENT OF DAVE KRONLAGE, FARMER, AND PRESIDENT, DELAWARE COUNTY FARM BUREAU, DYERSVILLE, IOWA

Mr. KRONLAGE. Thank you, Mr. Nussle. One thing that he did not mention was he asked me if my children would like to farm. One thing I did say, if things stay the way they are, I hope they do not.

Thank you for the opportunity to testify today before the House Ways and Means Committee on the potential benefits to farmers from increased trade with China. I am a farmer from Northeastern Iowa. My wife, Sherry, and I, along with our three children, raise 500 acres of corn and soybeans. We also market approximately 2,800 head of hogs a year from our farrow to finish operation.

The last 18 months have not been easy ones for farmers. The farm economy is not booming like the rest of the U.S. economy. I would like to give you a picture of what has been happening on my farm. In just six months' time, I lost about $60,000 in income when prices for hogs fell to historic lows. This fall, the average price for corn in my area was $1.60, but my cost of production was $2.40, assuming no return to capital. The average price for soybeans was $4.40, but my cost of production was $5.25, again, assuming no return to capital.

As a farmer, I face many uncertainties on a day-to-day basis. Most of these variables are out of my control. This has been an abnormally dry winter, so I am worried about a drought. A strong

U.S. dollar makes our agricultural products more expensive on the world market. The hog market crashed because of lack of packer capacity for the supply. Continued consolidation of agri-businesses makes me wonder if I will have a competitive market for my commodities and for the inputs I purchase.

In addition, government policies and actions can close or open a market overnight. Risk management is the only tool that I have available to protect myself from these uncertainties. I believe that farmers have an obligation to manage their own risk. I purchase a revenue assurance policy to protect my revenue on my crop acres. This costs me about $12 an acres. I also make limited use of the futures market to help manage the price risk of selling my finished hogs.

I participate in a network of about 18 hog producers called 2020 Pork Producers. We collaborate to use the same genetics, but raise our hogs individually. We collectively market these hogs to Swift Packing Company under a contract that gives us a certain amount above the base price for that day. I have also networked with other producers to form a meat company called Delaware County Meats. This company sells heat-and-serve meat products to grocery stores and restaurants and is our attempt to capture a larger share of the retail dollar.

As a producer, I am taking the steps to minimize the risk and to provide a stable income from my farm. I expect the government to do the same. Certainly, farmers are appreciative of the extra financial assistance that Congress provided over the last couple of years. However, I would prefer my income to come from the marketplace. Trade with other nations plays an important part in achieving that goal. Domestic markets alone cannot consume all that farmers in this country produce. We must expand our access for foreign markets to help farmers achieve profitability.

Agriculture is very dependent on the export market. Iowa farmers exported more than $4 billion in agriculture products last year. Iowa ranked second in the nation's agricultural exports, with 7.2 percent of all exports coming from my State. In 1998, Iowa exported just over $1 billion in agricultural products to China. Farmers in the U.S. export just over 30 percent of all soybeans produced and about 16 percent of all corn. The U.S. accounts for just under 60 percent of the world's soybean exports and nearly half the world's corn exports. The value of U.S. farm exports is equivalent to 24 percent of farmers' gross cash income.

In 1996, Congress passed the Federal Agricultural Improvement Act and made farmers three promises. Congress and the administration promised to reduce taxes, reduce regulations on family farmers, and increase our access to foreign markets. In exchange, farmers agreed to shoulder more of the responsibility for managing our own risk and making our own production decisions. I have done that on my farm, but feel like the government has not upheld its end of the bargain.

This year, Congress will decide whether or not to permanently extend normal trade relation status to China. This will implement our side of the bargain in the trade agreement negotiated between our two countries last fall. This agreement is an important first step in removing the barriers to trade that farmers face in that market. All commodities, but in particular pork, will benefit from this agreement.

For instance, China imposes significant restrictions on pork imports through high tariffs, restrictive import licensing, and complicated, arbitrary sanitary requirements. Under the agreement negotiated last fall, these restrictions will be phased out. I will benefit if the agreement with China is implemented and Congress grants permanent normal trade relation status for China. Based on an analysis by the Iowa Farm Bureau Federation, the average farmer's net income will increase by 7.7 percent because of increased trade with China. On average, my net income would increase by $6,000 a year if the promise of this market is reached.

As a pork producer, I believe this agreement and permanent normal trade relations for China are critical. Pork is the predominant source of meat protein consumed in China. Indeed, China consumes more pork per capita than the United States. Most analysts project this demand for pork will grow by six to seven percent a year over the next several years. Increasing our exports of pork means more utilization of the corn and soybeans we produce. This improves the price prospects for corn and soybeans because of the higher domestic use and reduces the pressure on the Federal budget.

China holds great promise for Iowa farmers. With 1.2 billion people, this consumer market is the largest in the world. We cannot afford to let this market slip away from our hands. Using food as a weapon does not work. We must engage the Chinese to move them toward democracy and to push them toward playing by world trade rules. If we do not, farmers like myself will be left out of this growing market.

I urge you to approve permanent normal trade relation status for China and uphold your end of the bargain that was made in 1996 when Freedom to Farm was passed. Thank you for the opportunity to appear before this committee.

Mrs. JOHNSON. Thank you very much.

[The prepared statement follows:]

Statement of Dave Kronlage, Farmer and President, Delaware County Farm Bureau, Dyersville, Iowa

Mr. Chairman, thank you for the opportunity to testify today before the House Ways and Means Committee on the potential benefits to farmers from increased trade with China. I am a farmer from northeastern Iowa. My wife Sherry and I, along with our three children, raise 500 acres of corn and soybeans. We also market about 2,800 head of hogs a year from our farrow to finish operation.

The last eighteen months have not been easy ones for farmers. The farm economy is not booming like the rest of the U.S. economy. I'd like to give you a picture of what has been happening on my farm.

In just six months time, I lost about $60,000 in income when prices for hogs fell to historic lows. This fall, the average price for corn in my area was $1.60 but my cost of production was $2.40 assuming no return to capital. The average price for soybeans was $4.40 but my cost of production was $5.25, again assuming no return to capital.

As a farmer, I face many uncertainties on a day to day basis. Most of these variables are out of my control. This has been an abnormally dry winter so I'm worried about a drought. A strong U.S. dollar makes our agricultural products more expensive on the world market. The hog market crashed because of a lack of packer capacity for the supply.

Continued consolidation of agribusinesses makes me wonder if I will have a competitive market for my commodities and for the inputs I purchase. In addition, government policies and actions can close, or open, a market overnight.

Risk management is the only tool that I have available to protect myself from these uncertainties. I believe that farmers have an obligation to manage their own risk. I purchase a revenue assurance policy to protect my revenue on my crop acres. This costs me about $12 an acre. I also make limited use of the futures market to help manage the price risk of selling my finished hogs. I participate in a network of about eighteen hog producers called 2020 Pork Producers. We collaborate to use the same genetics but raise our hogs individually. We collectively market these hogs to Swift Packing Company under a contract that gives us a certain amount above the base price for that day. I have also networked with other producers to form a meat company called Delaware County Meats. This company sells heat and serve meat products to grocery stores and restaurants and is our attempt to capture a larger share of the retail dollar.

As a producer, I am taking the steps to minimize the risks and to provide a stable income for my family. I expect the government to do the same. Certainly, farmers are appreciative of the extra financial assistance that Congress provided over the last couple of years. However, I would prefer my income to come from the marketplace. Trade with other nations plays an important part in achieving that goal. Domestic markets alone cannot consume all that farmers in this country produce. We must expand our access for foreign markets to help farmers achieve profitability.

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China holds great promise for Iowa farmers. With 1.2 billion people, this consumer market is the largest in the world. We cannot afford to let this market slip away from our hands. Using food as a weapon does not work. We must engage the Chinese to move them toward democracy and to push them toward playing by world trade rules. If we do not, farmers like myself will be left out of this growing market. I urge you to approve permanent normal trade relations status for China and uphold your end of the bargain that was made in 1996 when Freedom to Farm was passed. Thank you for the opportunity to appear before this committee today. I would be happy to answer any questions you might have.

Mrs. JOHNSON. Ms. Hoffman?

STATEMENT OF ANN HOFFMAN, LEGISLATIVE DIRECTOR, UNION OF NEEDLETRADES, INDUSTRIAL AND TEXTILE EMPLOYEES, NEW YORK, NEW YORK, AFL–CIO, CLC

Ms. HOFFMAN. My name is Ann Hoffman. I am the Legislative Director of UNITE, which represents 250,000 workers in the textile, apparel, and related industries. Thank you for the opportunity to present our views. They are laid out in greater detail in the article in Foreign Affairs by our President, Jay Mazur, which has been provided to all of you.

Very briefly, UNITE believes that the clear risks of granting permanent normal trade relations to the People's Republic of China at this time far outweigh the potential advantages of doing so. We do so for all the reasons given by Representatives Smith and Pelosi and by Mr. Mack. I would add to that only that the CRS, in the report they released yesterday, said that, "Chinese compliance with its WTO commitments is uncertain."

We find it difficult to comment on the specifics of the agreement of accession as it has not been published in this country and is, therefore, not available to key members of UNITE's staff nor to our members. If and when the complete text of the agreement is available, we may have additional comments.

I would like to second Mr. Mack's belief that if Congress votes no on permanent NTR but China proceeds to join the WTO, China and the U.S. will continue to have a binding trade relationship under international law. The trade relationship will be governed by the rules in the 1979 trade agreement between the two countries and several subsequent bilaterals. The most favored nation provisions of those agreements require that China afford to the United States any trade and non-trade economic benefits that China grants to other countries. More important, the U.S. will retain the right to use our own laws to sanction China by withholding or limiting access to the U.S. market for unfair trade practices, unfair labor practices, unfair human rights activities, and the like, which we will lose under WTO.

While only unions have been invited to testify today in opposition to PNTR, it is not unions alone who oppose it. We are joined in opposition by environmentalists, family farmers, consumers, faith-based organizations, humane organizations, supporters of a strong U.S. military, small businesses, companies that manufacture textiles and apparel in the United States, and human rights activists.

One of the best-known Chinese human rights activists is in the hearing room with me today. Wei Jingsheng is one of the heroes of China's democracy movement. For more than two decades, Wei has fought for human rights and democracy in China and against the vicious policies of the dictatorship. In 1978, Wei joined other writers, artists, and intellectuals in writing an impassioned plea for democratic change on the now-famous Democracy Wall in Beijing. Wei's essay caused a sensation, in part because he was willing to sign his name and address to his words.

For this act and for helping to publish an underground magazine, Wei was arrested, convicted of counter-revolution, and sentenced to prison. Wei served 14 years, the first eight months on death row and then five years in solitary confinement. Released from prison in 1993, Wei refused to be silent. Instead, he continued to write and speak his views. Again, he was arrested and spent four more years in jail before being released and forced into exile three years ago.

The recipient of several of the world's most prestigious human rights awards and a nominee for the Nobel Peace Prize, Wei Jingsheng is now a visiting scholar at Columbia University. He continues to travel, speak, lobby, and write on behalf of human rights and democracy in China, his homeland. Last November, Wei Jingsheng announced his opposition to permanent normal trade relations with China, arguing that granting permanent NTR would strip Congress of its best weapon to fight for change in China and would serve to bolster the dictatorship and further endanger those Chinese citizens who were willing to speak out as he did.

Madam Chairman, Wei Jingsheng has prepared brief remarks that he would like to present to the committee, if you would permit it.

Mrs. JOHNSON. I am sorry, if I would permit what?

Ms. HOFFMAN. Wei Jingsheng to speak.

Mrs. JOHNSON. Unfortunately, we are going to move through the whole panel first because of the time, so we want our invited people to testify, but we are happy to have him in the hearing room and that you have referred to him in your testimony.

Ms. HOFFMAN. I would like to present his statement for the record.

Mrs. JOHNSON. That will be incorporated in the record.

Ms. HOFFMAN. Thank you.

Mrs. JOHNSON. Thank you.

[The prepared statement and an attachment follow:]

[An additional attachment is being retained in the Committee files.]

Statement of Ann Hoffman, Legislative Director, Union of Needletrades, Industrial and Textile Employees, New York, New York, AFL–CIO, CLC

My name is Ann Hoffman. I am the Legislative Director of UNITE, which represents 250,000 workers in the textile industry, apparel and other light manufacturing and related industries. Thank you for the opportunity to present UNITE's views at this hearing. UNITE's President, Jay Mazur, regrets that a prior commitment has made it impossible for him to present the union's views in person. Attached to my testimony, however, is his article, entitled Labor's New Internationalism, which appears in the current issue of *Foreign Affairs.*

UNITE believes the clear risks of granting Permanent Normal Trade Relations to the People's Republic of China at this time far outweigh the potential advantages of doing so. China brutally suppresses the rights of its citizens and its workers. China has violated its existing bilateral trade agreements with the United States and has already signaled its intention to violate the accession agreement. China's accession to the World Trade Organization, with the blessings of the United States Congress, is likely to impede efforts to reform that organization. Even without Permanent NTR, trade between the U.S. and China will continue and will expand. For all of these reasons, the House should maintain the influence it now has by denying Permanent Normal Trade Relations to China.

We find it difficult to comment authoritatively on the specifics of the agreement of accession between the United States and China. That agreement has not been published in this country and is, therefore, not available to key members of UNITE's staff nor to our members. Until the agreement is published, my comments must be based solely on the Administration's summary of the accession agreement. If and when the complete text of the agreement is available, UNITE may have additional comments.

UNITE does not oppose trade with China

UNITE does not oppose international trade. We simply oppose the current trading regime. As President Mazur stated in his article, citing the position of President Clinton, "if the global market is to survive, it must work for working families."[1] UNITE and the other organizations that gathered last November in Seattle believe it is clear that the current system of trade negotiations is not working for working families. Trade negotiations today "exalt deregulation, cater to corporations, undermine social structures, and ignore popular concerns."[2] Our shared vision of international trade is of a system that takes workers' rights, environmental protection and public health and safety as seriously as it takes commercial advantage.

The same concerns lead us to oppose Permanent Normal Trade Relations for China. The 1999 agreement of accession between the U.S. and China deals solely with commercial relationships. Human rights, labor rights, environmental standards and social values are off the table. UNITE's members of Chinese extraction constitute one of the largest of the many ethnic and racial groups that make up the mosaic of our union. The relationship that would be established under the bilateral would not serve the interests of those and other working families in the U.S. or their relatives and other working families in China.

Rejection of Permanent Normal Trade Relations with China will not lead either to disengagement between the U.S. and China in general, nor to interference with trade with that nation. China and the U.S. will retain diplomatic, social, cultural and educational ties. Trade will continue on the basis of their existing bilaterals, their agreement of accession, the other accession agreements China is currently negotiating and China's Protocol of Accession to the WTO.

Even if little will change if Permanent Normal Trade Relations is denied, UNITE still sees denial of NTR on a permanent basis as a critical step in U.S. trade policy.

China suppresses workers' rights

China's accession to the WTO will seriously disrupt global labor markets, because of China's unique regulation of its own labor market and its sheer size. China has a population of 1.2 billion people. The population includes 800 million underemployed peasants and a so-called "floating population" of unskilled migrant workers numbering between 80 and 130 million. No other case of WTO accession has caused the seismic shock to supply and demand in worldwide labor markets that China's accession entails.

The Chinese population suffers under one of the most repressive regimes in the world. The most recent U.S. Department of State Annual Report on Human Rights, the 1998 Report, devotes 49 single-spaced pages to a wide-ranging and detailed catalogue of rights violations by the People's Republic of China.[3] The report notes that the country's

"human rights record deteriorated sharply beginning in the final months of [1998] with a crackdown against organized political dissent.. . . Abuses included instances of extrajudicial killings, torture and mistreatment of prisoners, forced confessions, arbitrary arrest and detention, lengthy incommunicado detention, and denial of due process.. . . The Government infringed on citizens' privacy rights. The Government continued restrictions on freedom of speech and of the press, and tightened these toward the end of the year. The Government severely restricted freedom of assembly, and continued to restrict freedom of association, religion, and movement. . . . The Government continued to restrict tightly worker rights, and forced labor remains a problem. Serious human rights abuses persisted in minority areas, including Tibet and Xinjiang, where restrictions on religion and other fundamental freedoms intensified."[4]

The Report's summary of human rights in China concludes with some paragraphs on increased openness and positive changes in law and practice. Even this optimistic note, however, concludes:

"authorities did not hesitate to move quickly against those it perceived to be a threat to government power or national stability. Citizens who seek to express openly dissenting political and religious views continue to live in an environment filled with repression."[5]

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[1] Mazur, Labor's New Internationalism, Foreign Affairs, January/February 2000, 79.
[2] *Id.*
[3] References that follow are to pages in the 1998 Human Rights Report on the web site of the U.S. Department of State.
[4] Report, Page 2.
[5] Report, Page 4.

The situation has not gotten better since 1998. As National Security Chief Samuel Berger said at the Woodrow Wilson Center on February 2 of this year:

"Over the past year, we have seen an increase in [China's] crackdown on political activities and dissent; stepped-up controls on unregistered churches; the suppression of ethnic minority groups, especially Tibetans; and the imprisonment of even more dissidents whose only crime is free speech." [6]

Worker rights, like human rights, are severely repressed in China. The Constitution of the People's Republic proclaims "freedom of association," but only one workers' organization is permitted: the All China Federation of Trade Unions, whose head is a member of the Standing Committee of the Central Committee of the Communist Party. "Independent trade unions are illegal." [7] Among the government efforts against independent union activity in 1998 reported by the State Department were the arrest and, in some cases, Imprisonment of several individuals in separate incidents. For example, Li Qingxi was sentenced to one year of reeducation through labor for putting up a poster calling for free and independent trade unions. Tu Guangwen was sentenced to 3 years in prison for leading a group of laid-off workers in a protest. Zhang Shanguang was arrested for trying to create an organization to defend the rights of laid-off workers. He was subsequently sentenced to 10 years of imprisonment for talking to a reporter from Radio Free Asia about a protest demonstration by farmers.[8] These examples are just some of those that have been brought to the attention of U.S. officials.

The absence of labor rights makes it impossible for workers in China to organize to improve wages, working conditions or workplace health and safety.

In a serious understatement, the State Department China Report notes that: "Forced labor is a problem;" [9] It is a problem that finds its way onto store shelves in the U.S. The State Department quoted estimates of 230,000 persons in "reeducation-through-labor" camps, just one type of confinement in which work is required, and whose products find their way into the export market.[10] According to the Report: "In 1998 U.S. Customs unsuccessfully pursued eight standing requests-seven of them dating back to at least 1995—to visit sites suspected of exporting prison labor products" and referred three additional requests to Chinese authorities. The failure of the Chinese government to cooperate in these investigations occurred despite a Memorandum of Understanding between the two governments signed n 1992 banning trade in prison products and a statement of cooperation with respect to that Memorandum signed in 1994.[11]

Many multinational corporations have shuttered their plants in the United States and relocated their production to China to take advantage of lower wages and repressive labor policies. The $57 billion trade deficit with China represents a loss of some 600,000 U.S. jobs. In addition, companies remaining in the U.S. threaten to move their production, creating downward pressure on wages and working conditions here.

Supporters of Permanent Normal Trade Relations with China claim that WTO accession will reverse or moderate the existing imbalance in trade, by increasing U.S. exports to China. While U.S. exports to China may well increase after WTO accession, even the ITC acknowledges that China's exports to the U.S. will increase even more, further tilting the balance.[12] As Robert Scott points out, those who are now predicting that the U.S. will gain by China's WTO accession are those who predicted similar gains for the U.S. from the North American Free Trade Agreement.[13] American workers surely will not trust those prognosticators.

Permanently normalizing trade relations with China while such repressive labor practices continue is not in the interests of workers. In addition to threatening jobs and working conditions in the United States, a massive increase in trade under these circumstances is likely to lock in the repressive conditions in China. Furthermore, unless wages and working conditions are improved in China, the vast majority of its 1.2 billion people will be unable to afford to buy the products they make, let alone the products made by workers in the U.S. As the Ranking Member of the Trade Subcommittee noted at its recent hearing on trade after Seattle, "distortions

[6] Berger's prepared remarks appear on the web site of the U.S. Department of State.
[7] Report, Page 38.
[8] 1998 State Department Human Rights Report, page 39
[9] Report, Page 40.
[10] Report, Pages 12, 41.
[11] Report, Page 40.
[12] ITC Report, page.
[13] Robert E. Scott, China Can Wait, Economic Policy Institute Briefing Paper, May 1999, pages 4–5 (web edition).

[of trade] result when workers are denied core rights." [14] President Clinton declared in his June 12, 1999 address at the University of Chicago, that the U.S. cannot continue to prosper "if we don't have more customers." Customers, however, are people with buying power, not just people.

China is unlikely to comply with its new obligations

According to annual reports of the U.S. Trade Representative,[15] China has failed to live up to the trade agreements it currently has with the United States. According to press reports, several from the Chinese media, China has already signaled its intention to flout its WTO accession agreement.

A few examples of past violations illustrate the point. China and the U.S. signed a Memorandum of Understanding on market access in 1992. Since then, China has maintained such non-tariff barriers as import and export licenses, import quotas, a requirement that telecommunications companies use Chinese components and food standards that block the import of U.S. citrus fruits, plums and wheat. U.S. industry estimates that counterfeiting, piracy and illegal exports by China have cost more than $2 billion, in violation of agreements signed in 1996 and later years on intellectual property rights. Repeated violations of a 1994 agreement on textiles, by illegal transshipment through third countries, caused the U.S. to reduce quotas for China in a 1997 textile bilateral. Transshipment continues. As noted above, Chinese officials have stonewalled U.S. inquiries on prison labor exports, in violation of a 1992 MOU.

Since signing the WTO accession agreement in November of last year, a mere three months ago, Chinese government officials have made it clear that their past pattern of non-compliance will continue. Among other examples, they have indicated that they will deny licenses to foreign insurance companies if it is in China's economic interest to do so. They have disagreed with the U.S.Trade Representative's report of the percentage of foreign ownership of telecommunications services that will be permitted. They have expressly disavowed making "any material concessions" with respect to imports of meat, and described their agreement with respect to wheat imports as "a theoretical opportunity." [16] China also stated that it will continue to control and, if necessary, limit imports of foreign oil.

In short, China has been an unreliable trading partner, and has given every indication of continuing to be one following its accession to the WTO.

China is a major threat to the U.S. textile and apparel industries

China is a formidable player in the world apparel and textile market. As of 1999, it was "the world's largest producer of apparel and has the largest production capacity for textile mill products." It is also the world's largest producer of cotton, manmade fibers and silk, and the world's largest country-exporter of textile and apparel products.[17] China has in recent years improved the efficiency of its textile industry and increased the quality and value of its apparel production.

The U.S. International Trade Commission (ITC), which has a record of *underestimating* the harm to the U.S. textile and apparel industries from trade agreements,[18] has nonetheless predicted that China's share of the U.S. apparel market will probably increase by 18 percent under the WTO accession agreement, leaving China with 30 percent of the U.S. import market.[19] This anticipated increase will result if China is freed from quotas on apparel and textile products at the same time as the other members of the WTO, that is January 1, 2005. Although the U.S. industry had sought an extension of quotas on China, USTR did not negotiate any extension.

The ITC took note of China's "abundance of skilled, low-cost labor," particularly useful in labor-intensive apparel production.[20] China's apparel wage rates are lower

[14] *Sweeney Calls for WTO Reforms; Democrats Address UAW Conference,* Bureaua of National Affairs Daily Report for Executives, February 9, 2000.

[15] 1999 Trade Estimate Report on Foreign Trade Barriers, pages 57–61.

[16] China trade envoy Long Yongtu, quoted in South China Morning Post, January 7, 2000

[17] Assessment of the Economic Effects on the United States of China's Accession to the WTO (hereafter, ITC Report), Publication 3229, September 1999, p. 8–3.

[18] See Statement of Mark Levinson, Chief Economist, Union of Needletrades, Industrial snd Textile Employees, AFL–CIO, on The African Growth and Opportunity Act, Submitted to the House Ways and Means Committee, Trade Subcommittee, February 3, 1999, page 6.

[19] ITC Report, Executive Summary, page xv. While the report was issued before the accession agreement was signed, the textile and apparel provisions of the agreement were unchanged between the date of USTR's initial summary in April, 1999 and the final summary in November.

[20] ITC Report, Executive Summary, page xiv.

than most other countries.[21] Hourly labor costs in the apparel industry in China (including social benefits and fringes) were $0.43 in U.S. dollars in 1998. In the U.S., hourly labor costs in the industry at the same time were $10.12.[22]

The American Textile Manufacturers Institute, the trade association for the U.S. textile industry, has predicted the loss of some 150,000 U.S. jobs and billions of dollars of production as a result of the apparel and textile provisions of the accession agreement.[23] This job loss would be on top of the 500,000 jobs lost in the textile and apparel industries since January 1, 1994. Between the early 1970's and today, the U.S. apparel and textile sector has been virtually cut in half, from 2.4 million workers to 1.2 million at the close of 1999. It is inexcusable that the workers and primarily small businesses in one segment of the U.S. economy should bear such an enormous burden from U.S. trade policy.

The overall U.S. trade deficit with China resulted in more than 600,000 "lost job opportunities" in 1996, more than 250,000 of them in apparel, shoes and textiles.[24] Job losses to China occurred in all 50 states, but were concentrated in California, New York, North Carolina, Pennsylvania and Georgia, all states with sizeable apparel and textile industries. Women suffered more than half of the job losses, and people of color were disproportionately harmed, a reflection of their over-representation in the apparel and textile industries.

While apparel and textiles have suffered the greatest job losses because of low-wage imports from China, other industries are rapidly joining the ranks of the net losers. Machinery and transport equipment and telephone equipment are now being imported into the U.S. from China more than they are exported to China from here. Even in the highest of high tech industries the pattern is continuing: "the U.S. exports computer parts to China and imports assembled computers."[25]

China's accession will slow reform of the WTO

Particularly since Seattle, the United States has pursued an agenda seeking to make the WTO more transparent and more democratic. Just prior to the 1999 WTO Ministerial, the U.S. began vigorous efforts to elevate environmental and labor concerns on the WTO agenda. Such changes are critical to the future of the WTO. As Richard Trumka, Secretary-Treasurer of the AFL–CIO told the Senate Finance Committee just last week:

"It's important for all in Congress to recognize that [opposition to the current model of trade is] shared by a broad and a growing majority, both in the United States, where voters overwhelmingly believe that workers' rights and environmental protections should be enforced in the global economy and across the world by working people whose voices too often go unheard."

As President Mazur said in his **Foreign Affairs** article: "If the WTO and other institutions cannot accommodate these demands, it is they who will be weakened, not the movement to fix the system."[26]

Reform efforts are likely to be stymied with China in the WTO. The WTO operates by consensus, but the influence of the largest powers in the organization cannot be overstated. China's economy today, based on purchasing-power-parity, is the second largest in the world, second only to the United States. China may overtake the U.S. and become the world's largest economy early in this century.[27] China will, without question, be a formidable force in the WTO.

China's repressive labor standards have been thoroughly documented above. China also has a deplorable record of environmental abuse. It is well known as an illegal trader in endangered species. Its Three Gorges Dam project is seen as so destructive to the environment that the World Bank has withdrawn financial support. In light of its own history of abuse, China can be expected to resist strenuously any attempt to incorporate labor and environmental standards into WTO policies. Its resistance will, if anything, strengthen the resolve of the other developing countries

[21] ITC Report, page 8–6.
[22] ITC Report, Table 8–2, page 8–7.
[23] ATMI press release on China, November 15, 1999. The ITC also predicted job loss in the apparel industry, but was unable to quantify the loss, in part because of shortcomings in the data available to it. Commissioner Stephen Koplan found the absence of such estimates "extremely unfortunate," and urged further research. See Additional Views of Commissioner Stephen Koplan, ITC Report. According to Commission sources, no additional research has been done.
[24] Jesse Rothstein and Robert Scott, The Cost of Trade with China, Economic Policy Institute Issue Brief # 122, October 28, 1997.
[25] *Id.*, page 2.
[26] Mazur, page 92.
[27] ITC Report, page 2–1.

to do the same. The result will be no progress in these critical arenas, to the severe detriment of the WTO.

China can also be expected to be as resistant to transparency and democracy in the WTO as it is in its dealings with its own citizens. As news analyst Joseph Kahn reported from the World Economic Conference in Davos, Switzerland:

"Leaders of developing countries, including India and China, are . . . passionate when they insist on writing their own labor and environmental laws and on not having such laws decided in negotiations with rich countries. There are few signs in the weeks since the Seattle collapse that poor countries are rethinking that stance."[28]

The opposition of the "poor countries" to including worker rights in trade negotiations does not reflect the thinking of *workers* in those poor countries, any more than the same position in the United States reflects the views of our workers. As Richard Trumka told the Senate Finance Committee: "in Seattle, the workers from those developing nations marched with American workers and workers around the world. They, too, wanted workers' rights raised by their countries, and they were frozen out of that process."[29]

Permanent NTR is not required

Proponents of Permanent Normal Trade Relations make one major argument. They claim that unless the United States grants Permanent Normal Trade Relations, U.S.—based businesses and farmers will be locked out of the deal. This is simply not true.

If Congress declines to grant Permanent Normal Trade Relations to China, there is a possibility that China will not join the WTO. That will leave U.S.—based entities in the same position as businesses and farmers in other WTO member countries.

If Congress votes "no" but China proceeds to join the WTO, China and the U.S. will not have a "binding WTO relationship," but the two countries will continue to have a binding trade relationship under international law. The trade relationship will be governed by the rules in the 1979 trade agreement between the two and several subsequent bilateral deals. The "most favored nation" provisions of those agreements require that China afford to the United States any trade and non-trade economic benefits that China grants to our competitors.

It is true that the U.S. would not be able to file complaints against China through the WTO dispute resolution process. If other WTO countries invoke that process, however, the U.S. will get the benefit of their resolution.

More important, the U.S. will retain the right to use our own laws to sanction China—by withholding or limiting access to the U.S. market—for unfair trade practices. "Several times in the past six years the U.S. has used the threat of huge, punitive tariffs to compel China to abide by the terms of the 1992 MOU on intellectual property rights, and this pressure resulted in the closure of several factories that were making counterfeit compact discs."[30] If China is in the WTO, the U.S. will not be permitted to exert such economic leverage—or even credibly threaten to exert such leverage—without itself facing charges of violating the WTO. In effect, the United States would be renouncing its sovereign authority to use any leverage other than the WTO dispute process against the second largest economy and one of the most repressive governments on earth.

What is more, if the U.S. and China are not tied through the WTO, the U.S. will be able to use its trade laws, if it so chooses, to redress violations of human rights, worker rights and the environment. The U.S. will be prohibited from taking such actions if China is in the WTO.

By declining to endorse China's entry into the WTO, the United States will, therefore, lose few if any substantial benefits that our competitors might gain from China. At the same time, we will retain our authority under international law to use economic leverage to combat China's unrelenting suppression of the rights of hundreds of millions of its citizens. And we will not participate in China's campaign to get a seat at the table where the rules of our emerging global economy are written.

[28] Joseph Kahn, Clinton Shift on Trade: 'Wake-Up Call,' The New York Times, January 31, 2000.

[29] Transcript of hearing, Federal News Service, Inc. page 40.

[30] China Can Wait, note 13, page 3.

Congress must retain its prerogatives

Congress is at a crossroads. It can retain its ability to invoke U.S. trade laws to redress abuses by the People's Republic of China. Or it can relinquish that authority by permanently granting Normal Trade Relations to China and permitting that country, with all of its failings, to become our peer in the World Trade Organization.

The business community is working hard to sell the China deal. They say that the choice is between engaging China or isolating it, between embracing the global economy or turning our backs on it. That is nonsense.

The debate is not about whether to engage China, but about the terms of that engagement. Is potential commercial advantage all that matters in our trade relationships, or may the people of the United States, working through their elected representatives, export our values along with our products?

The real questions before this body and before the American public are, what are the rules for the global economy and who should make them. UNITE believes strongly that the rules for the global economy must place human values at least on a par with commercial advantage. We believe that our elected representatives, and the elected representatives of free people around the world, should be partners in making the rules. They must not be made behind closed doors by the World Trade Organization.

I close with this thought from former House Speaker Jim Wright, who supported the North American Free Trade Agreement, but has lived to see its dire results for working families in both Mexico and the United States:

"Globalization is an irreversible fact. Our challenge for the 21st century will be to control it, manage it and humanize it. There must be some common rules to assure that it serves rather than exploits ordinary people." [31]

Thank you for your attention.

[Attachment is being retained in Committee files:]

Statement of WEI Jingsheng Foundation, Inc., New York, NY

The basic principle is simple. You do not reward children, adults, employees, business partners, enterprises, or countries for bad behavior. In the past two years, China has not become more lenient in the treatment of its citizens but rather more cruel.

Although many people are eager to separate business from foreign policy or human rights, as large and influential a country as the United States is obligated not to view trade in isolation from other issues Whenever the United States relaxes its stance on China, the Chinese regime seizes the opportunity to crackdown on dissent domestically. While in prison, I could myself measure the situation between the West and China based upon the treatment I received. Better treatment meant MFN was in question, that the USA was taking a more solid, critical stance, worse treatment meant exactly the opposite. In recent months the most salient example has been the repression of Falun Gong practitioners, however the Communist regime's cleanup campaign has certainly not been limited to this group alone. While the number of political and religious dissidents arrested rises, unemployment increases, and large numbers of the "floating population" are violently repatriated to their registered area of residence, the United States remains silent.

US negotiators might also have used their time in Beijing to address labor abuses in China. The most basic human rights of workers in China are not protected. Workers are not permitted to form independent Labor Unions. They toil like slaves, utterly unable to fight for better conditions and reasonable compensation. They might have obtained a guarantee that China will allow her workers to form unions, or to protect child laborers, or to terminate its laogai system. Instead, they are relying on the mechanisms within the WTO to retroactively reprimand China should the country violate WTO regulations. That China will violate regulations is certain, how well equipped the WTO is to react is less so.

One argument we will hear today is that in addition to the benefits the USA can attain from WTO entry, the ordinary people of China will as well. It is true that a small number of Chinese do stand to benefit from WTO entry—Why else would these batch of leaders be pushing so hard for WTO entry and WTO entry NOW? Should China enter the WTO, it would become easier for this small group to divert

[31] Jim Wright, Merger headlines hit at next century's great struggle, Op Ed, The Houston Chronicle, December 30, 1999.

and embezzle the country's money and betray China's best interests. However, the corrupt elite don't represent ordinary people. China is notoriously rife with corruption. WTO entry will simply export that corruption into the international marketplace. The country will be able to set its own very poor president of non-compliance to WTO regulations, and export further corruption into the WTO itself.

Domestically, ordinary Chinese businessmen, whether in state-run or private companies, would face competition from deep-pocketed and experienced businesses, and there will be an increased number of failures and bankruptcies. Even more Chinese workers will be laid off, and even more peasants will flood into the cities. The people of China know that their country's economy is already quite precarious. Many areas stand on the brink of collapse. How can it possibly withstand the shock of entering the WTO? Nearly everyone in China should be able to foresee this outcome. It's incredibly simple. Even those in power cannot deny it, and yet they do.

Mrs. JOHNSON. Mr. Jendrzejczyk?

STATEMENT OF MIKE JENDRZEJCZYK, WASHINGTON DIRECTOR, ASIA DIVISION, HUMAN RIGHTS WATCH

Mr. JENDRZEJCZYK. Madam Chair, it is an honor to testify before you. I grew up in New Britain, Connecticut, in your district, in fact.

Mrs. JOHNSON. Well, good.

Mr. JENDRZEJCZYK. We appreciate the opportunity to testify today on China's pending accession to the WTO and the implication for human rights. Human Rights Watch does not take a position on trade agreements per se and does not endorse any particular agreement. However, we do believe that the WTO process should be used to push for human rights improvements, also, that broader trade with China can be consistent with advancing human rights, but only if it is combined with effective sustained pressure for China to respect civil and political rights and also worker rights.

In my testimony, I analyze some of the recent deterioration in human rights conditions in China, assess what may be the long-term implications for human rights in China if China does become a member of the WTO, and make some recommendations, which I would like to refer to briefly at the end of my opening comments.

As a WTO member, China will commit itself to respecting global trading rules, and I believe this is a positive step towards China's integration into the international system, regulating not only trade relations, but also the way governments treat their own citizens. Restructuring China's economy to fit WTO standards will also give a boost to those within China, arguing that it must open up further not only economically but also politically if it wishes to be a respected member of the international community.

However, I do not believe that WTO membership will, in itself, lead to political change. It could be an important catalyst over the long term if combined with consistent pressure from outside China.

We believe, in fact, that the United States, as China is about to enter the WTO, has an obligation, along with China's other major trading partners, to increase the pressure on China to respect international norms, commitments, and agreements that it has already made. It makes little sense to bring China into the WTO, expecting it to abide by global trading rules if China routinely flaunts international human rights agreements with impunity. China must be moved to go beyond opening its markets to also open its jails, ease restrictions on the press and the Internet, and protect the rights of workers.

We would like to make four recommendations for the consideration of this committee, members of Congress considering permanent NTR, and the administration. As you know, China has lobbied for several years to end the annual renewal of its trade status and President Clinton has pledged to give China permanent NTR. We believe that in exchange for permanent NTR, China should have to make first some very specific and concrete human rights improvements. We, in fact, urge Congress to set concrete, meaningful, and realistic human rights conditions that China must meet before it receives permanent NTR, and the President should be required to certify that these conditions have been met.

I included in my written testimony some examples of the kinds of conditions we think could be met, but I want to be realistic here, as Mr. Levin has cautioned all day. I think it would be difficult, but not impossible, if the administration were to exert the kind of leverage and negotiating skills that it used to get the trade agreement to bring China to abide by these human rights conditions.

I also want to comment briefly on what Ambassador Barshefsky said this morning about permanent NTR, and I say this not pretending to be a trade expert. I understand, though, while it is true that, as she said, if China does not receive permanent NTR when it accedes to the WTO, it could invoke the non-application clause of the GATT agreement and this would, in fact, deny the U.S. certain benefits. But China is not required to do this. In fact, I think there would be an enormous incentive, both economic and political, for China not to do this.

Let us face it. This agreement has advantages for them. The Chinese Communist Party is more determined than ever to get access not only to American markets, but American investment and American technology. I think it is in their interest, therefore, for this agreement to stick so that they get the benefits as well as the United States.

Also, what if Congress in its wisdom decides not to vote for permanent NTR this year, and I know there has already been discussion about this, that if the votes are not there by June, it could happen next year. What happens then? That is the kind of question that Ambassador Barshefsky was not asked that I wish she had been.

But once again, we do believe this is an opportunity not to lose the leverage of permanent NTR but rather to use it to get some concrete and significant human rights improvements in exchange for permanent normal trade relations.

In addition, to replace the annual review, we strongly support Mr. Levin's proposal for a commission, most likely a commission set up of members of Congress, but also of representatives of the executive branch, to issue an annual report on China's compliance with its trade and human rights obligations, as well as its labor rights obligations.

Secondly, we very much welcome the administration's decision a few weeks ago to support a resolution critical of China at the annual meeting of the U.N. Human Rights Commission when it convenes in Geneva on March 20. However, for this to have any chance of generating a debate and a vote on Chinese human rights record, the administration must engage in high-level lobbying now with our major trading partners and allies, especially in Europe, Japan, Canada, and Australia.

At a speech a few weeks ago, Mr. Berger said that the President, and I quote, "will be actively and deeply engaged in the WTO fight," and Ambassador Barshefsky repeated that pledge this morning. We think the President must be equally personally and actively involved in lobbying governments around the world to support this resolution on human rights in Geneva. China is already doing so. It is already urging other governments not to support it, and the only way we are going to have a chance of success is if the President himself puts the weight of his office and personal clout behind it.

Thirdly, we support a legislative code of conduct—

Mrs. JOHNSON. Mr. Jendrzejczyk, may I interrupt you at this point?

Mr. JENDRZEJCZYK.—for U.S. companies in China, and finally, we hope this committee will urge U.S. Secretary of Labor Alexis Herman to go to China to begin a dialogue on labor rights concerns, as she has been invited to this spring.

Thank you very much.

Mrs. JOHNSON. Thank you very much.

[The prepared statement follows:]

Statement of Mike Jendrzejczyk, Washington Director, Asia Division, Human Rights Watch

We appreciate the opportunity to testify today on China's pending accession to the World Trade Organization (WTO), the U.S.—China bilateral trade agreement, and the implications for human rights. Human Rights Watch does not take a position on trade agreements per se, and does not endorse any particular trade agreement, including the one signed by the U.S. and China last November. However, we believe that the WTO process should be used to push for human rights improvements. Broader trade with China can be consistent with advancing human rights, but only if it is combined with effective, sustained pressure on China to respect basic civil and political rights.

In my testimony today, I would like to describe the recent deterioration of human rights conditions in China, assess the possible long-term impact of WTO membership on China's human rights performance, and present our recommendations to Congress as you consider the question of extending permanent Normal Trade Relations to China and the broader policy implications of this important decision.

The WTO and China:

As a WTO member, China will commit itself to respecting global trading rules. This is a step towards China's integration into the international system regulating not only trade relations but also governments' treatment of their own citizens. Restructuring China's economy to fit WTO standards will give a boost to those within China arguing that it must open up further both politically and economically if it is to be a respected member of the international community.

But WTO membership won't itself lead to political changes. It could be an important catalyst for change over the long run if combined with consistent pressure from outside China. For instance, greater transparency in economic matters could increase demands and expectations from within China for more openness in other areas.

China is a long way from having a legal and court system that functions independently of the Party and the State. Demands to modernize China's legal system to handle commercial disputes, protect contracts and combat corruption could help lay the groundwork for an independent judiciary and the rule of law that might extend to the political and security realms. As the World Bank has pointed out, "economic reforms have made legal rules matter" in China.

The closing of thousands of state-run enterprises—there are currently about 300,000, nearly half of them industrial—could push workers to insist on greater collective decision-making on workplace issues and the need for a social safety net. They may increasingly insist on exercising the worker rights guaranteed in the UN International Covenant on Economic, Social and Cultural Rights. (China signed this treaty in October 1997, but has not yet ratified it.) The official national employment rate is about eight percent, and in some rural areas it's much higher. A rise in the unemployment rate may create more instability in the short run, with the authorities clamping down on attempts by workers to organize. But eventually the government may be forced to create channels for workers to negotiate over their grievances. The alternative to allowing greater freedom of association is to risk disaffected workers turning against the state.

But I must emphasize that WTO membership in itself will not guarantee the rule of law, respect for worker rights, or meaningful political reform. Economic openness could be accompanied by tight restrictions on basic freedoms and a lack of governmental accountability. The Chinese government might seek to build the rule of law in the economic sphere while simultaneously continuing to pervert and undermine the rule of law elsewhere. For example, Chinese authorities claim to be upholding the "rule of law" by arresting and throwing in jail pro-democracy activists, and the nationwide crackdown on the Falun Gong movement has been cloaked in rhetoric about the "rule of law."

We believe the U.S. and China's other major trading partners must increase pressure on Beijing for significant improvements in human rights. It makes little sense to bring China into the WTO and expect it to abide by global trading rules when Beijing flaunts international rules of human rights with impunity. China must be moved to go beyond opening its markets to opening its jails, easing restrictions on the press and the Internet, and protecting the rights of workers.

Human Rights Developments in China:

There has been a clear deterioration of human rights conditions in China. A tightening of controls on basic freedoms began in late 1998, escalated throughout 1999, and has continued into the new year. The range of the crackdown suggests that a nationally coordinated campaign is underway to shut down all peaceful opposition in the name of maintaining "social stability."

Among the elements of the crackdown are:

—an intensified attack on all organizations that the Chinese Communist Party perceives as a threat to its rule;

—a series of regulations that constrain free association and assembly and religious expression;

—the ongoing arrest of Tibet "splittists" and tightened secular control of Tibetan Buddhism;

—the stepped up pace of arrests and executions of activists in Xinjiang. Even a prominent Uighur businesswoman, Ms. Rebiya Kadeer, who is well known in the U.S., has been detained and may be given a long prison sentence;

—ongoing attempts to interfere with the free flow of information at home and abroad, through new restrictions on the Internet and threats against academic research in open sources. We welcomed the release of the respected scholar, Song Yongyi, but his arbitrary arrest and detention are a clear reminder of the capriciousness of the "rule of law" in China and the dangers of conducting research into sensitive subjects.

I would like to provide the Committee with a few examples to illustrate the depth and breadth of the current crackdown.

On November 23, 1998, former premier Li Peng issued a statement that effectively banned opposition political parties. The following month, the courts gave heavy sentences to three leading members of the China Democracy Party (CDP), an open, peaceful opposition Party that had announced its formation prior to President Clinton's visit to China in June 1998. Veteran dissident Xu Wenli in Beijing, Qin Yongmin in Hubei province, and Wang Youcai in Zhejiang were sentenced to thirteen, twelve and eleven years respectively for "conspiring to subvert state power." The government's largely successful attempts to destroy the CDP have resulted in long prison sentences for its members in Beijing, Shanghai, and at least eight other provinces. In all, some twenty-five China Democracy Party members have been sentenced since December 1998 after trials lacking adequate procedural safeguards and closed in all but name. Others have been tried but not yet sentenced; at least a dozen more are still in detention.

Other attempts to organize groups outside official control have also been stifled. In November 1999, Aun Jun, an attorney who formed an organization called "Corruption Watch" to expose local corruption, was put on trial. The verdict has yet to be announced. He had attempted to legally register the organization with the Ministry of Civil Affairs, but it was banned. The China Development Union, set up to promote political and environmental reform, was quashed and its leader, Peng Ming, was sentenced last February to an eighteen-month term for allegedly soliciting prostitution.

Throughout China, leaders of worker and peasant protests calling for workers rights have been detained. Also, those trying to organize workers, or protesting against exorbitant fees and taxes, corruption, or fixed local elections have been arrested and given sentences of up to ten years. It's worth noting that China has not ratified key ILO (International Labor Organization) conventions protecting the rights of free association (87), the right to organize and bargain collectively (98), or on the abolition of forced labor (105). Of these, I might add that the U.S. has only ratified the ILO convention on forced labor.

Restrictions on religious freedom have increased. The crackdown on Falun Gong clearly violates China's commitments to respect internationally-guaranteed rights of freedom of belief, expression, association and assembly. Members of Falun Gong were detained by the thousands for reeducation after the group was officially banned on July 22, 1999, though most have since been released. Millions of Falun Gong books were confiscated and destroyed. At least 111 Falun Gong members, according to China's State Council, have been formally arrested though few details are known at this time. Sentences officially confirmed have ranged from three to eighteen years. President Jiang has made it clear that the suppression of the Falun Gong remains a high priority as part of the government's broader effort to control all organizations. The number of Falun Gong members—between two and seventy million in China—their ability to organize, and their use of modern tools of communication have made the Falun Gong movement especially threatening.

In early January 2000, Premier Zhu Rongji and State Councillor Ismail Amat gave speeches stressing the importance of control of religion to the stability of the state, and resistance to "hostile foreign forces" which they say use religion to undermine China's solidarity. Throughout the past year, there have been sporadic reports of arrests and detentions of Catholics and Protestants. Campaigns to register Catholic congregations in Hebei and Zhejiang provinces forced many worshipers into hiding. In an attempt to reaffirm the independence from the papacy of the official Catholic Church in China, the government's Religious Affairs Bureau and the Bishops' Conference of the Catholic Church in China arranged the ordination of five bishops last month, without seeking papal approval. At least ninety-five Protestant house church leaders were detained early in 1999.

Controls on the Internet:

The government's attempts to control the Internet have ominous implications for U.S. businesses seeking to expand operations in China under the terms of the new U.S.—China trade agreement. In January 1999, new regulations were issued requiring bars and cafes with Internet access to register and inform the police about their customers. By May, the Ministry of State Security was able to track individual E-mail accounts through monitoring devices on Internet Service Providers. Bulletin boards came in for round-the-clock monitoring; several were closed for hosting political discussions or postings critical of government policies.

Last month, Shanghai took the lead requiring corporate Internet users to register with the police, or face a fine. On January 26, 2000 new regulations retroactive to January 1 prohibited the transmittal of state secrets on the Web or through E-mail. The restrictions make both users and Web site owners liable for infractions. The broad language of the state secrets law invites selective application against anyone out of favor with the government. In addition, new regulations prohibit websites from independently compiling news or interviewing reporters; instead, they can only carry news already compiled by domestic newspapers.

I should add that the publishing and print media have also been more tightly supervised. Last fall, local newspapers and magazines were put under Communist Party control. And the State Press and Publications Administration banned foreign investment in wholesale book publication and distribution, and limited the right to distribute textbooks, political documents, and the writing of China's leaders to a handful of enterprises.

Recommendations to Congress and the Administration:

We urge the Congress and the Administration to couple efforts to make China a more reliable trading partner with serious parallel pressure on China to comply with its international human rights obligations. The WTO process itself can be a useful source of leverage, along with other channels of pressure.

1) Permanent NTR:

Mr. Chairman, China has lobbied for several years for an end to the annual review of its trade status under the Jackson-Vanik amendment of the Trade Act of 1974,

and as part of the WTO deal President Clinton has pledged to give China permanent Normal Trade Relations status. We believe that in exchange for PNTR, Congress should insist on reciprocal concrete steps on human rights by China.

The Congress should set concrete, meaningful and realistic human rights conditions that China must meet before receiving permanent NTR. The president should be required to certify that these conditions have been met, and this could happen any time following China's accession to the WTO. For example, China should be required to:

—ratify the two United Nations human rights treaties it has signed: the International Covenant on Civil and Political Rights, signed in October 1998, and the International Covenant on Economic, Social and Cultural Rights;

—take steps to begin dismantling the huge system of "reeducation through labor," which allows officials to sentence thousands of citizens to labor camps each year for up to three years without judicial review. A commission could be established for this purpose, and the U.S. and the U.N. could offer to provide support with technical assistance and rule of law programs;

—open up Tibet and Xinjiang to regular, unhindered access by U.N. human rights and humanitarian agencies, foreign journalists, and independent monitors;

—review the sentences of more than 2,000 "counterrevolutionaries" convicted under provisions of the Chinese law repealed in March 1997, with a view towards releasing most of them.

Getting China to meet these conditions is possible, Mr. Chairman, if the Administration engages in the kind of intensive, high level negotiations with Beijing it conducted to finalize the trade agreement last November.

To replace the annual trade status review, we would strongly support creation of a new mechanism, such as a special commission appointed either by both houses of Congress or jointly by Congress and the executive branch, to report annually on China's compliance with human rights and labor rights norms. This should be more than a pro forma process. An annual report should trigger, at a minimum, debate and recommendations for U.S. bilateral and multilateral policy initiatives.

2) U.N. Commission on Human Rights:

We applauded the Administration's decision last month to sponsor a critical resolution on China at the annual meeting of the United Nations Commission on Human Rights in Geneva, which convenes on March 20. In announcing this decision, the State Department correctly noted that "China's human rights record has continued to deteriorate...Our goal in sponsoring a China resolution is to foster increased respect for human rights in China."

Indeed, when confronted with a credible threat of a debate and vote in Geneva in the past, China has taken limited but important positive steps on human rights. It has also expended major effort worldwide to keep any critical resolution off the Commission's agenda—including by threatening to cut off trade deals or investment opportunities to governments that might support action. This effort has been stepped up since 1995, when a China resolution came within only one vote of being adopted. Last year, the Administration put forward a resolution, under Congressional pressure, only at the very last minute. The European Union (EU) refused to sponsor the measure, and China succeeded in squelching any debate by getting the Commission to adopt a "no action" motion (twenty two to seventeen, with fourteen abstentions.)

In order to have any chance at getting a debate and vote this year, the Administration will have to engage in serious, high level lobbying of other Commission members and potential cosponsors, such as Canada, Australia, and Japan. The European Parliament recently adopted a strong resolution calling on the EU to cosponsor action in Geneva. The European Union is likely to make a decision later this month. Between now and then, we hope President Clinton will match his commitment to WTO with a similar commitment to wage an effective campaign in Geneva.

At a speech on WTO and China at the Wilson Center on February 2, Sandy Berger, the president's national security advisor, said that Mr. Clinton will be "actively and deeply engaged" in the WTO fight. We urge the president to be just as actively and personally engaged in lobbying other governments at the highest levels on behalf of the U.N. Geneva resolution. This is vitally needed to counter a diplomatic and media campaign China has already begun to defeat it.

Members of Congress can also play a key role by contacting officials in other governments to urge their support at the Commission.

3) Code of Conduct for Companies:

China's entry into the WTO, and the implementation of the new bilateral agreement with the U.S., will lead to greater American private investment in China. We urge Congress to enact legislation originally introduced as early as 1991, and most recently in the House in 1995, outlining principles for a "code of conduct" for U.S. companies operating in China.

The legislation should express the sense of Congress that U.S. companies should, among other things, prohibit the use of forced labor in their factories or by their subcontractors in China, prohibit a police or military presence in the workplace, protect workers' rights of free association, assembly and religion, discourage compulsory political indoctrination, and promote freedom of expression by workers including their freedom to seek and receive information of all kinds through any media—in writing, orally, or through the Internet. The "code of conduct" bill should contain a registration and reporting procedure, and require an annual report to Congress and the OECD on the level of adherence to the principles by U.S. companies.

4) Labor Secretary to China:

U.S. Secretary of Labor Alexis Herman was invited to visit China by her counterpart, the Chinese labor minister, when he came to Washington, DC last March. We hope the Committee will urge her to travel to China this spring in order to conduct a high-level dialogue on China's labor practices, including protection of key worker rights, the cases of detained workers and labor organizers, and the creation of social safety nets. She would be the first U.S. labor secretary ever to visit China.

Mrs. JOHNSON. Let me just recognize that Mr. Kronlage has to catch a plane and has to leave. Thank you very much for being with us. We appreciate your testimony.

Mr. KRONLAGE. Thank you, Madam Chairman.

Mrs. JOHNSON. Mr. Jendrzejczyk has concluded his testimony.

Mr. Liuzzi, Mr. Crane welcomes you. He is sorry that he could not be here at this particular time in the hearing, but it is a pleasure to have you with us. Proceed with your testimony. Remember, all of your statements are entered in their totality in the record.

STATEMENT OF ROBERT C. LIUZZI, PRESIDENT AND CHIEF EXECUTIVE OFFICER, CF INDUSTRIES, INC., LONG GROVE, ILLINOIS, ON BEHALF OF THE FERTILIZER INSTITUTE

Mr. LIUZZI. Thank you, Madam Chairman. Thank you for the opportunity to be here. My name is Robert Liuzzi and I am President and Chief Executive Officer of CF Industries, which is an inter-regional farmer-owned cooperative and also a major manufacturer of nitrogen and phosphate fertilizer. I am representing today The Fertilizer Institute, which is composed of approximately 250 members who account for the manufacture of over 90 percent of all fertilizer manufactured in the United States.

The topic that the committee was discussing today is of extreme importance to us, Madam Chairman, and I am reminded by the many times that Congressman Rangel talked about win-win. Right now, the fertilizer industry does not feel like a winner under the bilateral agreement that was reached last November, and the reason for that is that agreement did not contain trading rights for fertilizer, which we view as the critical element for meaningful market access to China's fertilizer market. As Ambassador Barshefsky indicated this morning, I do not know if I quote exactly, but certainly I paraphrase, this is a serious problem, and we regard it as a serious problem.

While the agreement did contain certain provisions relating to fertilizer, in our view, they are meaningless without market access, which is now currently controlled by state-connected or state-owned trading enterprises in China. Our hope is that, based on recent developments, this situation will be corrected in the near future.

Just in terms of what the fertilizer market in China means to the U.S. industry, China is the largest fertilizer market in the world. It accounts for almost 30 percent of the world's annual consumption of both nitrogen and phosphate fertilizers. Consequently, the way that the Chinese government or its state-owned enterprises control access to that market can have a profound effect on prices and production patterns all over the world, including in the United States of America.

Currently, China is the largest importer of phosphate fertilizers, taking each year about $1 billion worth. But since 1997, China has closed its borders to the importation of nitrogen fertilizer, particularly urea, which is a dried product and the most widely used nitrogen fertilizer product.

We understand that these trading rights could not be resolved at the 11th hour when the bilateral agreement was finally initialed. We also understand, as Ambassador Barshefsky indicated this morning, that there is a high-level understanding between the United States and Chinese governments on the need to continue discussion on this issue and resolve it. We further understand that the United States has a proposal in the hands of the Chinese and is being considered by the Chinese at this time. However, at the present time, the issue, we think, is highly critical, has not been resolved.

Chairman Crane, Congressman Levin, as well as Speaker Hastert have strongly communicated their concern on this matter both to the administration and to the Chinese ambassador. In addition, 70 United States Senators have also communicated their concern to the Chinese government.

Because of the importance and the size of China's market for fertilizer, the industry has always been a strong and consistent supporter of normal trade relations with China. However, to go forward, we think it is extremely important this matter of trading rights be resolved between the two countries. It is critical to the financial health and long-term well-being of our industry.

As an industry, we are fully prepared to support permanent normal trade relations in the context of China's WTO accession, provided the trading rights issue for fertilizer can be satisfactorily resolved. Thank you, Madam Chairman.

Mrs. JOHNSON. Thank you very much, Mr. Liuzzi.

[The prepared statement follows:]

Statement of Robert C. Liuzzi, President and Chief Executive Officer, CF Industries, Inc., Long Grove, Illinois, on behalf of the Fertilizer Institute

Introduction

My name is Robert C. Liuzzi and I am President and Chief Executive Officer of CF Industries, Inc., a member of The Fertilizer Institute (TFI). I appear before you today on behalf of TFI, a voluntary, non-profit trade association of fertilizer industry participants. TFI's nearly 250 member companies manufacture more than 90 percent of domestically produced fertilizer. TFI's membership includes producers, manufactures, distributors, transporters, and retail dealers of fertilizer and fertilizer materials.

CF Industries is one of North America's largest interregional cooperatives, owned by and serving nine regional cooperatives. Through its Members, the Company's nitrogen, phosphate and other fertilizer products reach over one million farmers and ranchers in 48 states and two Canadian provinces.

I appreciate the opportunity to appear before you today to discuss the importance of China's WTO accession to the U.S. fertilizer industry. I am here to express on behalf of the industry both a concern and a hope with respect to China's accession. While the November bilateral agreement included several positive commitments that could help open China's fertilizer market, including lower tariffs, elimination of quotas and distribution

rights, our concern is that the Agreement did not contain the critical element for meaningful market access for fertilizer—trading rights. Trading rights are the rights of private parties to import and export fertilizer outside the control of China's state trading enterprises. The lack of trading rights for private parties to import fertilizer undermines the commercial value of all of China's commitments on fertilizer. It means that the Agreement provides no assured access to China's enormous fertilizer market. Our hope is that, based on recent developments, this situation will be corrected in the near future.

The Need for International Access to China's Fertilizer Market

First, it is essential to understand the importance of fertilizers in feeding the world's expanding population. There are three primary plant nutrients—nitrogen, phosphate and potash. While all three occur naturally, they are not supplied in sufficient quantity to support today's high yielding crop production. It is conservatively estimated that, without fertilizers, production of essential crops such as corn, wheat, and rice would decline by as much as twenty-five percent.

China's fertilizer market is the largest in the world. China accounts for almost 30 percent of the world's annual consumption of nitrogen and phosphate fertilizers and approximately 14% of the world's annual consumption of potassium fertilizers (Exhibit 1—Chinese Fertilizer Demand). Furthermore, China is the largest importer of U.S. phosphate fertilizers. In fact, fertilizers are the fourth largest U.S. export to China with sales of approximately a billion dollars annually (Exhibit 2—Top U.S. Exports to China).

The bilateral accession agreement that was reached in Beijing last November included some potentially meaningful commitments on fertilizer, including the reduction of tariffs, the elimination of certain quotas, and certain distribution rights. Unfortunately, the Agreement contained nothing on trading rights for fertilizer. Without having at least some form of trading rights for fertilizer, U.S. and other countries effectively have *no* guaranteed access to the Chinese fertilizer market at any level. This renders meaningless the other potentially market opening provisions on fertilizer that the Chinese have agreed to.

I am pleased to say that the Clinton Administration is sympathetic with our concerns and is working hard with China to rectify this situation. We are grateful to them for their efforts. We are also grateful for the support we have received from the Congress on this matter, including Members of this Committee, particularly Congressman Crane and Congressman Levin.

At this point, I would like to describe for the Committee in greater detail the importance of China's fertilizer market, the content of November's bilateral agreement as it affects fertilizer, and the current state of play.

The Importance of China's Fertilizer Market

China is the world's largest importer of diammonium phosphate (DAP). DAP is the world's most widely used and traded phosphate fertilizer product. China accounts for more than one-third of total world trade in DAP, with almost all of the imports purchased from U.S. producers. Each year the U.S. exports approximately 5.5 million tons of DAP to China worth almost $1 billion, which represents nearly half of total U.S. DAP exports and more than one-third of total U.S. DAP production.

The outlook for China's phosphate use remains strong. Chinese phosphate consumption is expected to grow from approximately 8 million metric tons today to 11 or 12 million metric tons by the year 2005. The outlook for increased U.S. DAP exports to China also looks positive, but any Chinese trade restrictions on DAP imports would have a devastating impact on these prospects and on the entire U.S. fertilizer industry.

China is also the world's largest consumer of urea. Urea is a dry, solid product and is by far the world's most important and widely used nitrogen fertilizer product. To put the role of China's urea market into perspective, China accounts for one-fourth of total world urea fertilizer demand and, up until 1997, China was the world's dominant importer of urea accounting for as much as 40 percent of total world trade. Furthermore, urea is the largest and one of the fastest growing nitrogen fertilizer products used in China. From 1981 to 1996, urea demand in China grew at an average annual rate of 7.0 percent, with the total volume increasing from 9.6 million metric tons in 1981 to 26.5 million in 1996.

The Closing of China's Urea Market in 1997

In mid–1997, the Chinese government made a decision to bolster the domestic Chinese urea industry and completely closed its borders to urea imports by refusing to issue new import licenses for urea. Imports immediately dropped from 6.4 million metric tons in 1996 to virtually zero in 1998. Given the importance of China's demand, China's complete and sudden withdrawal from the world urea market had and continues to have an immediate and immense impact on world urea prices and on the U.S. market. In the U.S., prices for granular urea at the Gulf Coast (the key pricing point in the U.S.) dropped from $180 per short ton at the beginning of 1997, to $100 in January 1998, to $82 in January 1999. This is a price at which efficient U.S. producers cannot return a profit. In addition to the drastic drop in urea prices, the U.S. market has experienced an influx of substantial quantities of urea displaced from the Chinese market. U.S. imports of urea increased by approximately 30 percent in 1998, primarily due to an increase in volume from Middle East production diverted from the Chinese market. U.S. import statistics for 1999 are expected to approximate 1998's record levels.

November 1999 Memorandum of Understanding and Fertilizer Trade

As this Committee is aware, after months and indeed years of negotiations, the United States and China reached a bilateral agreement in Beijing in November of 1999 with respect to China's accession to the WTO. As we understand it, this Agreement contains a number of potentially useful provisions with respect to fertilizer. According to information provided to us by USTR, these provisions include the following:

- Tariffs—China will reduce tariffs on fertilizer imports from a current average of 6% to an average of 4% upon accession.
- Quotas—China will eliminate quotas upon accession for priority fertilizers and by January 1, 2002, for all other fertilizers.
- Distribution—China will permit foreign enterprises to engage in the full range of distribution services for chemical fertilizers after a 5-year transition period.
- Other commitments—China will apply all taxes and tariffs uniformly to both domestic and foreign businesses to eliminate uncertainty associated particularly with application of the 17% VAT tax.

Unfortunately, the November Agreement did not include any Chinese commitments to provide trading rights for fertilizer. Without such trading rights, which would give privately owned companies (both domestic and foreign) the right to import fertilizer into China, the importation of fertilizer into the Chinese market will remain entirely within the hands of state enterprises or the state itself. Without trading rights, there is no effective market access for fertilizer based on China's accession to the WTO. As previously noted, the lack of trading rights totally undercuts the value of China's other commitments relating to fertilizer.

Current Efforts to Obtain Trading Rights for Fertilizer

The industry has been told that, when China failed to provide trading rights for fertilizer in the November bilateral agreement, there was an understanding at the highest levels of the U.S. and Chinese governments that work would continue on this important issue. Although the bilateral agreement would be signed in Beijing, bilateral discussions would still continue in an effort to find mutually acceptable means of ensuring meaningful access to China's important fertilizer market. We would like to believe that China understands that market access for our fourth largest export must be assured. The effort to come to an agreement on effective market access and trading rights for fertilizer is underway. After an initial meeting in Seattle on the margins of the WTO ministerial in December to discuss the issue, U.S. and Chinese negotiators met again on January 20 in Geneva where a U.S. proposal was presented to the Chinese side. We understand that this U.S. proposal is currently under consideration by the Chinese, but that at this point this important issue remains unresolved.

We are, however, very hopeful that an agreement will be reached in the near future. The Chairman of the Subcommittee on Trade, Representative Crane, the ranking member, Representative Levin, and Speaker Hastert, have strongly communicated their concern to both the Administration and Chinese Ambassador Li. In addition, more than 70 Senators have written to members of the Administration, the President and to Ambassador Li insisting that fertilizer market access be included in the final WTO accession agreement. USTR Ambassador Barshefsky and her negotiators are working tirelessly with the U.S. fertilizer industry and with the Chinese to resolve this remaining issue in an acceptable manner and we remain hopeful that they will do so.

Conclusion

The U.S. fertilizer industry strongly urges this Committee to ensure that there is assured access to China's important fertilizer market within the context of a final WTO accession agreement. Because of the importance of China's market to our industry, we have consistently been a strong and vocal advocate for normal trade relations with China and for China's accession to the WTO. We continue to believe that China's entry into the WTO is the best possible way to encourage bilateral trade and investment and to open China's borders and its culture to the world. However, we must ensure that effective market access for fertilizer is among the commitments that China ultimately makes as part of its WTO accession package in exchange for the many benefits of WTO membership. We trust that an agreement on fertilizer can be reached, and we will continue to seek your help in obtaining a swift and favorable resolution of this critical issue.

Thank you.

Exhibit 1

Chinese Fertilizer Demand 000 Metric Tons of Nutrients

	1994	*1995*	*1996*	*1997*	*1998*
Nitrogen					
China	19,529	22,264	24,123	23,493	22,933
% of World Total	26%	28%	29%	28%	27%
Phosphate					
China	7,311	8,776	8,835	9,034	9,049
% of World Total	25%	28%	28%	27%	27%
Potassium					
China	2,129	3,017	2,224	3,202	3,127
% of World Total	11%	14%	11%	14%	14%

Exhibit 2
Top U.S. Exports to China

($ Million)

Harmonized Tariff Schedule (HTS) #	HTS Commodity	1997	1998
88	Aircraft & Spacecraft	2,122.6	3,585.2
84	Power Generation Equipment	2,477.0	2,718.5
85	Electrical Machinery & Equipment	1,520.0	1,754.2
31	Fertilizer	1,049.8	1,064.1
90	Medical Equipment	627.4	679.6
39	Plastics & Articles	432.3	432.0
48	Paper & Paperboard	260.1	335.8
15	Animal, Vegetable Fats & Oils	168.4	319.4
12	Oilseeds	428.6	303.7
29	Organic Chemicals	215.6	223.0

Source: U.S. International Trade Commission, U.S. Department of Commerce, and U.S. Bureau of the Census

Mrs. JOHNSON. Mr. Appel?

STATEMENT OF STEVE APPEL, PRESIDENT, WASHINGTON STATE FARM BUREAU, OLYMPIA, WASHINGTON, AND CO-CHAIRMAN, TRADE ADVISORY COMMITTEE, AMERICAN FARM BUREAU FEDERATION

Mr. APPEL. Thank you, Madam Chair, and almost good evening. I am Steve Appel. I am President of the Washington State Farm Bureau and a wheat and barley farmer from Southeastern Washington. I also serve on the Executive Committee of the American Farm Bureau Federation and as Co-Chair of the American Farm Bureau's Trade Advisory Committee.

AFBF represents more than 4.9 million member families in all 50 States and Puerto Rico. Our members produce every type of farm commodity grown in America and we depend on the access to customers around the world for the sale of over one-third of our production.

I appreciate the opportunity to speak before you today on the important subject of the recently-signed U.S.—China bilateral trade agreement and China's accession into WTO. The Farm Bureau has long supported China's entry into the WTO on a commercially meaningful basis. We now have an accession package which is, indeed, commercially meaningful for both the U.S. and the Chinese economies.

The agreement is good for the American people. Having China, the largest emerging economy in the world, in WTO will expand trade among all members, leading to increased global economic prosperity. Also, having China in the WTO will bind China to the rules of commercial law represented by the WTO, and for China, this agreement will undoubtedly lead to increased economic and political freedoms.

We urge Congress to grant permanent normal trading relations for China as soon as the vote can be scheduled. There are a host of reasons to do so, but none better than improving the daily lives of both American and Chinese people.

This agreement is good for American farmers and ranchers. China is broadly recognized as the most important growth market for U.S. agricultural exports. The Department of Agriculture estimates that China's admission into the WTO could lead to an increase of $1.7 billion in sales of agricultural products within one year, just about doubling our current exports to that large country.

China has agreed to several major concessions regarding agriculture. China has signed a bilateral agreement in which they have agreed to solid market access commitments for American food and fiber products. In some instances, they have gone beyond what their minimum commitments would be under the current WTO rules. Even the more conservative estimates point to these commitments as placing China in the top five of U.S. agricultural export markets by the close of the decade. This agreement also ensures that American farmers and ranchers will have strong protections against unfair trading practices.

These Chinese have offered American agriculture a historic opportunity which will greatly enhance our export potential at a time when it is drastically needed. It will positively impact farm income in the United States. China has, however, offered the equivalent of this bilateral negotiation to many of our competitors. China will join the WTO and our competitors will have the market to themselves unless Congress acts quickly to grant China permanent normal trading relations.

The vote for permanent normal trading relations is about trade. It is a vote for continuing the U.S. economic expansion and, hopefully, having that expansion flow into the U.S. agricultural sector. Farmers and ranchers are already hampered in developing export markets by our own unilateral sanctions and the unfair trading practices of other competing nations. We must ensure that we do not unilaterally disengage from this historic opportunity for American farmers and ranchers. Thank you.

Mrs. JOHNSON. I thank you for your testimony.

[The prepared statement follows:]

Statement of Steve Appel, President, Washington State Farm Bureau, and Co-Chairman, Trade Advisory Committee, American Farm Bureau Federation

Good morning, Mr. Chairman. I am Steve Appel, President of the Washington State Farm Bureau and a wheat and barley farmer from southeastern Washington. I also serve as co-chairman of the American Farm Bureau Federation (AFBF) Trade Advisory Committee. AFBF represents more than 4.9 million member families in all 50 states and Puerto Rico. Our members produce every type of farm commodity grown in America and depend on access to customers around the world for the sale of over one-third of our production.

I appreciate the opportunity to speak before you today on the important subject of the recently signed U.S.—China bilateral trade agreement and China's accession into the World Trade Organization (WTO). Farm Bureau has long supported China's entry into the WTO on a commercially meaningful basis. There has been a longstanding concern that the U.S. and other trading partners would consider China's entry into the WTO for geopolitical reasons. Since we now have an accession package which is indeed commercially meaningful for both the U.S. and Chinese economies, we should accelerate this accession protocol for precisely those geopolitical considerations.

This agreement is good for the American people. Having China—the largest emerging economy in the world—in the WTO will expand trade among all members leading to increased global economic prosperity, the very foundation of trade liberalization efforts. Having China in the WTO will advance the rule of law within China, and more importantly, will bind China to the rules of commercial law represented by the WTO. For China, this agreement will undoubtedly lead to increased economic and political freedoms. The promise, and premise, of trade liberalization is more than just that. It is the exchange of ideas and values that can lead to more fulfilling civic institutions and citizens.

We urge Congress to grant permanent normal trading relations for China as soon as the vote can be scheduled. There are a host of reasons to do so, but none better than improving the daily lives of the American and Chinese people.

This agreement is good for American farmers and ranchers. China is broadly recognized as the most important growth market for U.S. agricultural exports. The Department of Agriculture estimates that China's admission into the WTO could lead to an increase of $1.7 billion in sales of agricultural products within one year, just about doubling our current exports to that large country.

In addition, U.S. exports to the Asian region as a whole are expected to increase in the next few years as a result of China's accession into the WTO. This is likely to occur as Chinese consumption levels increase, domestic production patterns skew more to global prices, China ceases to employ export subsidies, and there is a commensurate decline in Chinese agricultural exports to the Asian region. This agreement may be with China, but it will have impacts far beyond Chinese borders.

China has agreed to several major concessions regarding agriculture. Many of the commitments go beyond what is currently mandated by the WTO.

1) China will begin to reduce tariffs immediately (upon accession), from an average of over 31% to an average of 15%. All tariff reductions are bound and will be fully implemented by 2004.

2) China has agreed to establish sizeable tariff rate quotas for bulk commodities such as wheat, corn, rice and cotton, which will give U.S producers a chance to compete for that market, without import licensing schemes or quantitative restrictions.

3) China has agreed that sanitary and phytosanitary disputes should, and will, be settled on a scientific basis.

—U.S. citrus exports to China will be phased in over a period of two years. After that, citrus exports would be permitted based on U.S. export standards.

—China will lift the ban on wheat and other grain exports from the northwestern U.S. by raising the tolerance level on TCK smut in bulk shipments.

—China has agreed to recognize the U.S. certification system for meat and poultry which will allow these products access to all segments of Chinese markets.

4) China has committed to eliminate use of export subsidies. This will be especially beneficial to U.S. producers as we export to third-country markets.

5) China has agreed to increase trading rights for the private sector and will phase out the state trading of soy oil. The right for importers to act on their own, without going through a state agent or middleman, could lead to a sizeable increase in imports.

China has signed a bilateral agreement in which they have agreed to solid market access commitments for American food and fiber products. In some instances, they have gone beyond what their minimum commitments would be under current WTO rules. Even the more conservatives estimates point to these commitments as placing China in the "top five" of U.S. agricultural export markets by the close of the decade.

I'd like to also mention the commitments that the U.S. has retained, or strengthened, as a result of this agreement to protect the U.S. market from unfair dumping of products by the Chinese.

This agreement ensures that American farmers and ranchers will have strong protections against unfair trading practices, including dumping. The U.S. will retain our current antidumping methodology, which treats China as a "non-market economy" in the future, without the risk of a WTO challenge. This provision will remain in force for 15 years after China's accession into the WTO. Its important that we were able to retain this provision given the production characteristics of an economy dominated by state or quasi-state run operations.

This agreement also ensures that American farmers and ranchers will have substantial protection against import surges of Chinese products. This mechanism, labeled the Product—Specific Safeguard, will address increased imports that cause, or threaten, to cause market disruption to any U.S. industry or sector. China is an agricultural exporter, and we have had instances of Chinese agricultural exports disrupting the U.S. internal market (e.g. apple juice concentrate, crawfish). While the U.S. has had success through its own domestic dumping laws in the past to address these issues, this new provision will accelerate the review and adjudication process. This Product-Specific Safeguard provision can be applied unilaterally by the U.S. under legal standards that are lower than those of the WTO. However, having a tool and using a tool are two different matters. We urge the administration to continue to use all tools available to combat the results of unfair production, marketing, and trade practices used by any exporting country.

The Chinese have offered American agriculture an historic opportunity which could greatly enhance our export potential at a time when it is drastically needed. It can positively impact farm income in the U.S. when the agreement goes into effect.

China has also offered the equivalent of this bilateral negotiation to many of our competitors. China will join the WTO, and our competitors will have the market to themselves unless Congress acts quickly to grant China permanent normal trading relations.

The vote for permanent normal trade relations is about trade. It's a vote for continuing the U.S. economic expansion and hopefully having that expansion flow into the U.S. agricultural sector. Farmers and ranchers are already hampered in developing export markets by our own unilateral sanctions and the unfair trading practices of other competing nations. We must ensure that we do not unilaterally disengage from this historic opportunity for American farmers and ranchers.

Mrs. JOHNSON. I thank the panel, and I regret that it is so late in the afternoon, but I recognize Mr. Rangel for questions.

Mr. RANGEL. I just want thank the panel for staying with us so late. Thank you.

Mrs. JOHNSON. Mr. Houghton?

Mr. HOUGHTON. I have got lots of questions, but I think I will ask them individually. It is very late and you have been very patient and I agree with Mr. Rangel. Thank you, Madam Chairman.

Mrs. JOHNSON. Mr. Levin?

Mr. LEVIN. Well, maybe I will abide by precedent. You all have been patient and some of us have had continuing conversations. I hope they will continue.

One of the issues that has been raised today is the effective earlier trade agreements if there is not permanent NTR, and clearly, more considerable work has to be done on that issue because there are differences of opinion.

And on the human rights issue, Mr. Jendrzejczyk, we have talked before and let us talk further. I think, obviously, this is an important component of our relationship and we welcome your inputs.

And to the rest of you, I will follow the approach of my colleagues and say thank you for your patience. Some of you have been here all day. Thanks very much.

Mrs. JOHNSON. Mr. Collins?

Mr. COLLINS. Thank you, Madam Chairman. There has been a lot said today about this being a win-win situation and then there have been some who have expressed their concern that it may not be entirely a win-win situation. Mr. Liuzzi, you are very concerned about an area that has not been addressed yet, and I emphasize yet because you emphasized it.

I mentioned to Ms. Barshefsky when she was here another area of concern that has not been addressed in these negotiations. Ms. Hoffman, I ask you, do you think, or what is your opinion when it comes to the area of textiles and whether or not the textile employees in this country and the textile industry will be included in the win-win status?

Ms. HOFFMAN. We are already losers big time, not just the workers, but the small companies that employ apparel workers and many textile companies. We have lost, since the effective date of NAFTA, January 1, 1994, in this country 500,000 jobs in apparel and textiles. Our industry of apparel and textiles had 2.4 million workers in the mid-1970s. We are now down to 1.2 million, half.

Beyond my opinion, it is the opinion of the International Trade Commission that China's exports of apparel to the United States will soar if this agreement goes into effect. The ITC suggested that, for the most part, those jobs will come from other areas—Africa, the Caribbean, other countries in Asia. But in earlier testimony before the committee that our union has made and which I referred to in my written testimony, we have documented that the ITC has always predicted that the jobs would just move around in other producing countries and every successive trade agreement has meant more and more lost jobs. China is currently the single largest country exporter of clothing to the United States and that will only increase.

Mr. COLLINS. I appreciate your position there and I understand it fully, having a lot of textile people in Georgia. I recall, you mentioned NAFTA, I recall in 1994 when the NAFTA vote came up and several of us were summoned down to the White House to be talked to about NAFTA, and even the President said at that meeting that there are those who say that the textile industry will lose jobs or textile jobs will be lost. There will be, but we do not need to worry about those jobs.

I do worry about them, and I will tell you someone else who is worried. We had a meeting here last year with some of the Latin American countries, and in discussing textiles as part of the trade, they, too, voiced their concern about China and China's cheap labor versus the cheap labor in Latin America. China's is cheaper, so they have some concern there, too.

I appreciate your comments. Hopefully, the USTR's office will go back and look at these negotiations in the area of textiles. There are a lot of winners in these negotiations. There are a lot of commodities and products and services that will gain benefits from it, but there is an old saying, a dog that will not bark in his own backyard is not much of a dog. Well, we have a lot of textiles in our backyard and those people are just as important as the people who work down the street in the high-tech industry. So we appreciate and hope the USTR will go back to that.

Madam Chairman, I do not know if the American Textile Manufacturers Institute testimony was received into the record or not. They were a little late, a day late in calling back to be a witness, and if not, I would like to submit their testimony for the record. Thank you.

Mrs. JOHNSON. I would be happy to include their testimony in the record, but we are having other hearings and it would be likely—

Mr. COLLINS. I would like it entered into this hearing, Madam Chairman.

Mrs. JOHNSON. We will do that, and if they would like to speak at the other hearings, they certainly will be free to contact the committee and indicate to that effect.

Mr. COLLINS. Very good. I would appreciate you passing that along to the subcommittee chairman.

Mrs. JOHNSON. As we conclude the hearing, I do, just as a matter of public information, since it has been brought up a number of times, I just want to comment on the 1979 agreement. It is very thin. It is small pages, there are only seven or eight of them, and it has no enforcement provisions. It also does not extend to services. It does not allow distribution rights. One of the problems has been is for companies getting into another market but then other countries blocking their right to market and sell their products.

So I think it is important as we conclude this hearing to recollect that, on the whole, the agreement that has been negotiated with China is about dropping their tariffs, not ours. We have already done that. It is about access to their markets. They already have access to our markets, and everything that is happening in textiles is happening because they have access. And yet during the period when the textile industry has been under enormous assault, they have modernized the cotton industry so they are one of the best cotton producers in the world, and if they had access to the Chinese market, that might give them a greater opportunity.

But those are the things that we will look at more closely in the days to come. But I think it really is important to recognize that bilateral enforcement has not worked. That is why we got into GATT. That is then why we got into WTO. In this decade, we have worked hard on intellectual property rights and had a very hard time enforcing our own agreements.

And part of what we have to think through at this opportunity is not only what does this agreement with China offer us in terms of decreased barriers into their market, but what are going to be the consequences for us of having all the nations of the world part of our team of enforcement? That is going to make a very big difference not just in the ability of American companies to have the right to trade in a fair trade environment, but it is going to have an extraordinary impact on the development of the concept of rule-governed trading relations within China, and that itself is going to make a difference over the years in our ability to support values that I think the world shares.

Mr. JENDRZEJCZYK. Could I just comment briefly on your last—

Mrs. JOHNSON. I appreciate that it is difficult not to be able to answer, but I do have to conclude the hearing and I will be happy to talk with you afterward. One of the problems with hearings is that members do not have much time for dialogue and neither do members of the panel.

But it was a very fruitful hearing. There have been a lot of different opinions. But I think it is important to recognize that the very limited nature of this agreement that has been referred to, because it was written in a very different age, it is not comprehensive and it is not enforceable. And for us to imagine in the modern world that we could use this to govern the future, I think would be a terrible cop out. That does not mean that we do not have work to do together. Thank you.

Mrs. JOHNSON. The committee is adjourned.

[Whereupon, at 4:50 p.m., the hearings was adjourned.]

[Submissions for the record follow:]

Statement of American Apparel Manufacturers Association, Arlington, VA

Thank you for providing this opportunity to comment on the U.S.–China Bilateral Trade Agreement and Accession of China to the World Trade Organization.

The American Apparel Manufacturers Association (AAMA) is the national trade association for the US apparel industry. Our members are responsible for about 85 percent of the $100 billion worth of garments sold at wholesale in this country every year. Our members manufacture every type of garment and are located in nearly every state. Many also import from nearly every part of the world. Our industry employs about 700,000 Americans.

AAMA has been closely following the discussions regarding China's accession to the World Trade Organization (WTO). Our members have a strong interest in the provisions of the China WTO accession protocol—both those that deal with textile and apparel as well as those that deal with other elements of China's trading regime.

Some of our members view China as a competitor. Many rely solely upon domestic production while others base their production and sourcing strategies on partnerships with the Caribbean Basin. At the same time, a number of our members view China as a potential partner. They either source products from China now or, pending a liberalization of the trading regime, would consider doing so in the future. Many also sell, or are beginning to sell, finished products into the Chinese market.

Uniting these diverse views is the belief that China's WTO accession bid should proceed in a manner that is transparent, consistent with international trading rules, and based on commercial, and not political, grounds. At the end of the day, we believe it is vitally important that China accede to the WTO soon so that they can quickly apply the disciplines of international trade to their economy. We need to make sure that the rules of international commerce apply to China as soon as possible.

In general, AAMA is supportive of the new U.S.—China trade agreement. Although we are still unsure how several of its provisions will be administered, including those relating to safeguards, the deal seems to strike an appropriate balance among the various industries and interests that will be affected by U.S.—China trade relations in the coming years. Moreover, it paves the way for China's entry into the WTO—an event that needs to occur soon.

Following is our understanding of some of the key points of the deal, as described in summary papers that have been circulated within the industry.

- The agreement will end quotas on Chinese textile and apparel imports on December 31, 2004, when they end for other WTO partners. However, quotas can still selectively restrain Chinese imports through a special 4-year post–2004 textile and apparel safeguard, lasting until the end of 2008, and an overall 12-year product-specific safeguard, lasting until 2012.
- Although the deal does not permit the reduction of U.S. tariffs on Chinese apparel imports into the United States, it does reduce most duties on apparel imports into China. Most apparel duties will drop from about 35 percent to between 17 and 24 percent. Including other sectors, China lowers its average duties to about 9 percent.
- Other provisions of the agreement open up the Chinese market to provide more guaranteed market access, distribution and investment rights for foreigners.

It remains to be seen if bilateral agreements struck with other countries will provide further benefits for U.S. companies in the trade relations with China.

To ensure that the United States is able to take full advantage of this deal, and the overall Chinese accession package, it is important that the United States accord unconditional normal trade relations with China. Such a move is also important to ensure that we live up to our obligations under the WTO. We expect our trading partners to abide by their commitments before the WTO. We should do no less.

A congressional vote on this matter is also important to reconfirm to the world that the United States—in the post Seattle world—wants to remain a strong participant in the global economy. We have argued in other testimony that the Congress should quickly pass CBI/Africa trade legislation and reaffirm U.S. membership in the WTO (should that vote be necessary) to help reassert US leadership of the global economy. A strong vote in favor of permanent NTR for China is also necessary to reassert US global leadership in the world's trading system.

Statement of Maurice R. Greenberg, Chairman and Chief Executive Officer, American International Group, Inc., New York, New York

Mr. Chairman, thank you for the opportunity to testify on the issue of China's membership in the World Trade Organization (WTO). As a CEO of an American company with operations worldwide, I can think of no more important geo-economic policy challenge facing the United States today.

How the Congress handles this issue will affect U.S. interests for decades to come. I am convinced that a positive vote to extend Permanent Normal Trade Relations (PNTR) status to China will help build a legacy that will serve U.S. economic and security interests in Asia and the world.

China is at an extraordinary moment in her history. Over the last 25 years, China has built stronger economic and diplomatic ties with her Asian neighbors and the West, and is making an effort to become an increasingly integrated member of the global community. There can be little doubt that China is rising to great power status.

The broad policy question before the Congress today is whether China should be encouraged to further integrate itself into the community of nations, or whether it is ostracized and isolated, unable to address the aspirations of its 1.3 billion citizens, and becomes an unstable force in world affairs. Regardless of what we do, China will continue to expand its relations with other nations. Our national interest is served by continuing to build our relations with China. Otherwise, we just isolate ourselves.

The more specific question Congress must answer is whether to allow the United States to enjoy the dramatic market opening benefits China has offered by making Normal Trade Relations status for China permanent. For twenty years, Congress has renewed this status annually because it benefits both China and the United States.

AIG's History in China

American International Group, Inc. (AIG) has a unique history. We were founded by an American entrepreneur in 1919 in Shanghai, China. AIG is the only major American corporation that traces its roots directly to China. AIG was also the first foreign insurer to return to China. We were granted a license in 1992 to operate a wholly owned, non-life and life insurance business in Shanghai. AIG's China operations today span a range of insurance, financial services and investment activities, with offices in Shanghai, Guangzhou, Foshan and Shenzhen. We employ 1,100 Chinese citizens, and have an agency force of nearly 10,000.

AIG's life insurance company in China, American International Assurance Company, Ltd. (AIA), is the largest life insurer covering the Asian region. When it was licensed in China, AIA continued its longstanding tradition of innovation by introducing the agency distribution system to the Chinese life insurance industry. The system is now widely employed by local insurance companies as a principal distribution channel.

In addition, AIA pioneered the introduction of professional life insurance operations, including management information systems, professional underwriting and world-class service standards. For example, we were the first to introduce the auto pay system for premium payments, the first to develop a bank draft system for insurance company payments, and the first to introduce professional examinations to help educate and train insurance company staff in China. In fact, over 6,000 agents currently employed by the domestic insurance industry were trained by AIA.

AIG's presence in China provides a good example of how expanded foreign trade and investment can be a win-win result for both countries.

In our case, the introduction of new management practices, training, technology, and marketing techniques has resulted in a cadre of highly motivated and skilled Chinese personnel whose lives today bear no resemblance to what existed only a few years ago. They have readily adopted Western "best business practices," enjoy better living conditions, and a wider range of freedoms to travel and to spend their growing financial resources than have any of their countrymen during China's 5,000 year history.

While AIG's history is unique, the experiences of thousands of other U.S. and foreign-owned companies doing business in China today strongly suggest that similar, positive results are occurring.

Simply stated, economic progress and expanded trade opportunities in China are helping to create a new and prosperous middle class while enhancing the quality of life for hundreds of millions of people.

The Benefits of China's Entry into the WTO

I believe AIG's China story provides lessons for the future ramifications of China's entry into the WTO.

First, if China joins the WTO on the commercially attractive terms so ably negotiated for U.S. manufacturing, agricultural and services industries by Ambassador Barshefsky, considerable new employment opportunities will be created for U.S. workers. U.S. competitiveness has never been stronger and our businesses are positioned well to generate meaningful results for the U.S. economy.

Secondly, the commitments China has made to the United States as part of its WTO accession package are striking in breadth and scope. In our industry, for example, China has agreed to:

- Open the entire insurance market within three years to all foreign companies by expanding from the current, limited access;
- Permanently grandfather existing operations and eliminate all restrictions on internal branching;
- Open up to foreign ownership both non-life and life insurance (including health and pension plans), and eliminate existing restrictions on the placement of reinsurance.

The U.S. insurance industry has been poised for many years to expand into China. Limitations that have confronted us geographically, and by product line, will be almost completely eliminated, practically overnight. In fact, one of the great challenges facing China's regulators will be to manage the rapid opening of its market, given the many foreign companies that will be allowed to do business there so suddenly. It is in our interest that China manage this transition successfully.

Over time, the presence of U.S. and other foreign insurers will bring to China the modern management tools necessary to develop a competitive, world class insurance industry. This will give China the ability to more efficiently manage risks throughout its economy and society. And, with it will come the benefits of choice, lower prices and product innovations to meet the needs of Chinese consumers.

Because of the long-term liabilities involved, life insurance is an especially effective stimulus to long-term investments—investments that, by their very nature (i.e., bonds, housing, and infrastructure), help in the national building process.

It is entirely possible that China will become the largest insurance market in the world in the not-too-distant future. Such a market holds forth tangible economic benefits to the United States. Over time, successful American insurers in China will generate new employment opportunities for support personnel in their U.S. corporate headquarters. In addition, they will transfer dividend income to their U.S. shareholders, generate tax revenues for the U.S. Treasury, and will make investments in bonds and other U.S. financial instruments.

Despite these benefits, I am aware of the various arguments made to block China's WTO membership or to condition its entry. Some of these arguments will be made because China and the U.S. have different values and different political systems. We do, and we probably always will. But for those who have not had the benefit of seeing firsthand the remarkable changes that have occurred over the last 25 years in China, it may be difficult to appreciate how these values are converging. Bringing China into the WTO will accelerate the process of helping to understand the reason for those differences—differences that can sometimes lead to mutual distrust, hostility, or even conflict.

Moreover, we should not allow our trade relations to become hostage to our differences. The U.S. has differences in values and culture with many countries. What is important is that we always try to work out our differences in a peaceful way.

Understanding China's Past

Over many years, I have had occasion to observe firsthand post-war economic developments in many countries around the world. I first visited China in 1975, and have been back just about every year since. Compared with other countries, the positive results of China's economic growth and development are nothing short of miraculous. Continued progress can be expected for the foreseeable future, particularly if China allows even more open competition and trade.

We should not forget that it was not many years ago that, with respect to China, the U.S. had no diplomatic relations, no meaningful trade, no cultural exchanges, and certainly no military cooperation. Just suspicion and isolation, and a cold peace.

China's interests in Asia were often in conflict with our own. The consequences for America were costly in political, economic and human terms. The Korean conflict claimed over 50,000 American lives, and China supported insurgency movements throughout the region, and provided moral and logistical support for North Vietnam to prolong that tragic war.

During the period leading up to the Communist revolution, and for much of her modern history, China was subjugated, humiliated and exploited by foreign powers. The Opium Wars, the partitioning of Shanghai, and Japan's military occupation are examples. Understanding China's history helps explain China's preoccupation today with stability, following hundreds of years of internal turmoil, famine and bloodshed. Understanding China's history also helps us appreciate and interpret China's current needs and interests. Given where China has been, feeding and clothing such a massive population represents tremendous progress.

In this context, China's WTO commitments are all the more significant. Beyond insurance, China has agreed to open up its agricultural markets, its distribution systems, significantly lower its tariffs, and has offered increased market access and foreign ownership for financial services, telecommunications and automobile companies, to name a few.

Once implemented, China's overall WTO concessions will far surpass the level of market openness found today in many other developed and developing WTO member countries. Importantly, the package also represents a higher and wider level of market liberalization toward which both existing and prospective WTO members should now aspire.

These concessions are entirely one-way in nature (with no reciprocal concessions by the U.S.). They are the result of decisions the Chinese leadership has made to use WTO membership to push ahead with domestic economic reforms and open the economy to worldwide competition.

The Chinese leadership is taking a calculated risk that the U.S. will help, and not exploit, their efforts to promote competition with vested interests in their own country. Denying China entry into the WTO would not only engender bitterness and resentment, it would also undercut the gamble China's leaders have made to modernize their economy.

U.S. and China: Shared Interests

The basis for any long-term, stable relationship between the U.S. and China, as with any two countries, must be mutual respect and understanding, coupled with a reasonable evaluation of what is realistic and achievable. This relationship should promote U.S. national interests in Asia. I would suggest that among the most important U.S. foreign policy objectives are:

- Promoting stability in Asia, including such unstable areas as the Korean Peninsula and the Taiwan Strait;
- Limiting the proliferation of weapons of mass destruction;
- Encouraging the continued expansion of open electoral systems where the views of individual citizens can be expressed, and;
- Expanding trade, investment and access to markets based on transparent legal structures and the rule of law.

To pursue these interests, we need a cooperative China, one that accepts international obligations by integrating into the rules-based economic and security arrangements that govern global conduct.

It is clear that there are a broad number of areas where the U.S. and China have common interests. We both want a reliable partner. We have a common interest in a growing and stable Asia. We both want to avoid tensions in Asia's potential trouble spots. Our recent cooperation on Korea, for example, has been more positive than many people appreciate. Our economies complement each other, and trade has expanded some 400 percent over the last ten years, with a significant number of high-wage U.S. jobs dependent on our exports to China.

Why PNTR Should Be Permanent

Some have argued that the annual ritual of granting normal trade relations (NTR) to China has provided useful leverage in affecting Chinese behavior. There is little evidence to support this claim. To its credit, each year since 1980, the Congress has extended NTR to China. After vigorous debate, successive Congresses have concluded that withdrawing NTR would be disruptive to the relationship and to our own interests in seeing China play a more constructive role in the world. Moreover, each year Congress has recognized that denial of NTR would be devastating to Taiwan, as well as to Hong Kong, and that the U.S. would simply be rewarding our competitors in China.

Under WTO procedures, all WTO members are required to extend unconditional NTR when China joins the WTO. With over 130 other WTO members, the U.S. has supported the principle of non-discrimination, which rests at the heart of the multilateral trading system. Any benefits granted to a WTO member must be granted unconditionally (i.e., permanently) to all other members.

Were China to join the WTO without receiving permanent NTR from the United States, China would have the right, under WTO rules, to deny to U.S. workers, businesses and agriculture the extraordinary benefits the U.S. obtained as part of China's WTO package. Instead, we would relinquish to French, German, Japanese and other competitors the concessions that are properly due the U.S. We are not doing our firms and workers any favor by denying them what is clearly in their best self interest.

This is not to suggest that the U.S. should refrain from discussing differences we have with China over human liberties, their form of government, freedom of speech, assembly and the press. But, we should do so in other, more appropriate, fora. Denying China PNTR based on our dissatisfaction with progress in these areas will not make China share our values or adopt our systems. In fact, as has been demonstrated in many countries, the expansion of trade will lesson our differences over time.

Some have argued that China should not be allowed to enter the WTO now, because it cannot be trusted to live up to its trade agreements. The commitments China has made to enter the WTO, however, will be subjected, for the first time, to the WTO's dispute settlement mechanism. Trade disputes will no longer be governed by bilateral frameworks alone. Disputes will be resolved according to standards China has accepted and, more importantly, for the first time, the overall world trading community will have the right and power to enforce them. Therefore, the obligations China has made will be exposed to much greater transparency and a multilateral, rules-based regime as compared with those negotiated with individual countries in the past.

Conclusion

In conclusion, I would respectfully urge the Congress to support China's entry into the WTO and to grant Permanent NTR to China as soon as possible. Your decision should be based on the primary objective of promoting a sound U.S. foreign policy. If you agree that it is in our geo-economic interest to engage China on a broad strategic basis, we should not let our differences on individual issues, as important as they may be, distort the opportunity to accomplish our broad objectives.

The immediate post World War II experience of the United States is instructive in this respect. The U.S. wisely chose to expand trade ties with our former adversaries. The results were more prosperous and free allies. China's entry into the WTO can lead to the same result.

Moreover, the past 25 years demonstrates that there is much good to come from a positive relationship with China. We have everything to lose, alternatively, by pushing China into a hostile role.

It is highly unlikely that the U.S. could have a realistic policy for Asia if it excludes China. If our relations with China were unsettled, it would be very difficult for other Asian countries to openly side with the U.S. One only has to look at a map to understand why. The U.S. would be the loser. I sincerely hope that we never allow our relationship with China to reach a point where that choice has to be made.

By joining the WTO, China deepens its stake in the community of nations and the U.S. promotes its national interests of peace and stability. When future generations look back on this period in our history, I am confident Congress will be judged as having made the right decision for the American people.

Statement of American Textile Manufacturers Institute

This statement is submitted by the American Textile Manufacturers Institute (ATMI), the national trade association of the domestic textile mill products industry.

ATMI's member companies will be hurt by the China WTO accession package agreed to on November 15, 1999 and the enactment of permanent normal trading relations (NTR) will cost the jobs of thousands of U.S. textile workers. This agreement will give China preferential access to the U.S. market for its vast subsidized textile and apparel sector while U.S. textile and apparel access into the Chinese market will very likely remain seriously impaired. In particular, the agreement gives China an accelerated five-year quota phase-out that no other WTO country has enjoyed, and does so at the expense of thousands of U.S. workers in the textile sector.

A 1999 U.S. International Trade Commission (ITC) Study on China's accession [1] determined that the Chinese share of apparel imports into the U.S. would more than triple under a 2005 phase-out. The ITC study reveals that the effect of the Chinese quota phase-out on other regions, particularly on the nations of the Caribbean nations and Mexico, will be equally severe. These countries' growing apparel sectors, which exist almost entirely to service U.S. markets, will be decimated by an early Chinese phase-out.

While the ITC study did not assess the economic impact of this tripling of China's share of imports to the United States, a study by Nathan and Associates (Exhibit A) does. It revealed that early removal of quotas imposed on Chinese textile and apparel imports will cost the U.S. textile and apparel sector 154,500 jobs. It also found that U.S. textile shipments will decline by $4 billion and U.S. apparel shipments will drop by $7.6 billion.

At the same time that Congress is considering important trade legislation to help both the CBI and African apparel sectors, it should be aware that the preferential Chinese quota phase-out would cancel most, if not all, of the benefits these regions would receive.

During the WTO negotiations, the Clinton Administration insisted that the U.S. textile industry needed ten years to adjust to the phase-out of quotas for WTO members. With the Chinese accession agreement, we now have the prospect of the world's largest textile and apparel exporter, which has the greatest power to wreak

[1] ASSESSMENT OF THE ECONOMIC EFFECTS ON THE UNITED STATES OF CHINA'S ACCESSION TO THE WTO, Investigation 332–403, (Publication 3229; September 1999).

havoc on the domestic industry, getting a phase-out of *only five years.* Some say there is nothing unfair about the shorter phase-out because China's textile and apparel imports were under quota control for the 1995–2000 period. Such an argument misses a fundamentally important point. China decided not to join the WTO in 1995. China decided it preferred to keep its own market closed. China decided not to face the rules and disciplines of WTO membership until now. So why should China be rewarded by the U.S. for five years of operating outside of WTO rules by granting China a better deal in textiles than other WTO members received in 1995?

Such a decision by the United States is even harder to accept when one examines China's behavior between 1995–2000. During that time, China:

- Kept its textile and apparel market essentially closed;
- Illegally transshipped billions of textile and apparel products annually through other countries to avoid quotas;
- Illegally copied textile designs in violation of the U.S./China intellectual property agreement;
- Subsidized its textile and apparel exports, thereby increasing the economic damage to U.S. producers and workers.

The shorter quota phase-out for China is not only wrong, unjustified and unfair, but it is also bad trade policy because it puts the livelihoods of more than 150,000 U.S. textile and apparel workers at risk.

And while this agreement appears to some to be a magic ticket into the growing Chinese market, ATMI feels obligated to point out that the road to *real* market access in China will be a long and bumpy one. As the U.S. textile industry well knows -and as the U.S. government knows as well—China is not known for keeping its agreements. Over the past 16 years, China has signed six textile and apparel bilaterals with the U.S. -and broken every one of them. It has signed four intellectual property rights (IPR) agreements -and intellectual property theft in China still remains rampant. In fact, the most recent National Trade Estimates report compiled by the U.S. Trade Representative's Office notes that "U.S. industry estimates of intellectual property losses in China due to counterfeiting, piracy, and exports to third countries have exceeded USD 2 billion." [2]

So while much is being made about new Chinese "commitments" to do away with fraudulent customs activity, eliminate local content laws, institute the rule of law regarding commerce and trade and so on, ATMI wishes to note that "practice" should speak louder than words and that all concerned should take China's avowals of a "new China" with a grain of salt.

In addition, we note that perhaps the most damaging of all China's behaviors—its vast subsidization of its textile and apparel sector—remains apparently untouched by this agreement. Any U.S. industry and its workers must be concerned about the lack of any provision in the bilateral agreement to deal with China's export subsidies on manufactured products.

It is indisputable that China uses many different government programs to subsidize its exports of industrial goods. In fact, Chinese economists have identified ten new subsidy programs to promote Chinese textile and apparel exports alone (see Exhibit B). A copy of the report describing these programs is attached. Yet, for some strange reason, the U.S./China WTO accession agreement is silent about any commitments on China's part to curb its industrial subsidies. Was this an oversight? It defies belief to conclude that it was. Then, why?

ATMI has inquired of the Administration and we were not told why, only that "the WTO rules will apply." That may be the case, but that answer provides little comfort to our industry or any other industry in the U.S. worried about subsidized Chinese exports of manufactured products. To rely on WTO rules implies two assumptions. First, that the WTO rules on export subsidies can be effectively used. And, second, that the U.S. will act to use those rules and that it can resort to its own countervailing duty laws and regulations in addition to, or in place of, the WTO rules.

In fact, neither assumption is valid. The WTO rules, including those that cover subsidies, let countries "self-elect" whether to be considered developing or not. While the U.S. may intend to treat China as a "developed" country, it will likely discover that many WTO remedies are out of reach as long as China elects itself to be developing. In regards to export subsidies, preferential treatment is given to the offending country even when export subsides are found to be actionable -and even the WTO itself acknowledges that reaching a finding is a long, difficult and intensive process. To make matters more difficult, developing countries are demanding that the eight-year timetable (until 2002) for ending developing country export subsidies

[2] 1999 National Trade Estimate Report on Foreign Trade Barriers, USTR, p. 60.

be extended still further as a condition for their supporting future WTO negotiations.

In addition, under the current WTO rules, non-export subsidies, which can be just as harmful as export subsidies, are de facto permitted unless they can first be proven to have caused injury to a member country. Thus production subsidies are permitted pending the finding of a causal link between that subsidy and injury of another member—an almost impossible task given the length of time most of these subsidies have been in place.

But more importantly, under current practice, the U.S. countervailing duty (CVD) laws cannot be applied to China. To repeat, U.S. countervailing duty laws do not apply to China. Why? Because China is a non-market economy, the U.S. announced that over a decade ago that CVD rules would not apply to non-market economies. Why was this seemingly preposterous decision taken by the Department of Commerce? The reasoning was something like this: because China and other non-market economies, by definition, subsidize nearly every aspect of their economies—everything is subsidized, therefore the true impact of subsidies cannot be known. And Commerce has stuck to this startling conclusion ever since. Of course, the fact that some industries were preparing to file massive CVD petitions against China at the time of the decision may have also had some impact.

In any case, the agreement contains no effective weapon against Chinese export subsidies. There is no commitment by China not to subsidize its industrial exports (as it has agreed with its agricultural exports); there is a time-consuming and uncertain WTO process (which is also subject to China's ability to throw its substantial weight around); and, most importantly, there is no remedy under U.S. countervailing duty law. This crucial failure to deal with these subsidies is reason enough to oppose the U.S./Chinese accession agreement.

Also, while much has been made of the notion of bringing China into a "rule-based" WTO system, the Uruguay Round agreements are, in a number of vital areas, sadly deficient in terms of preventing trade-blocking behavior. These include IPR enforcement, Customs valuation, standards, pre-shipment inspection and marking rules, among others. Simply having China within this system is no guarantee that Chinese trade barriers will suddenly or even eventually disappear.

Indeed, having China as a full-fledged WTO member makes the prospects for closing these loopholes even more unlikely in the years ahead as China is sure to seek ways within the system to slow down or derail any initiatives in these areas.[3] Other developing countries without China's geopolitical clout have already defied their WTO commitments and are, in Geneva, seeking extensions regarding compliance with their WTO commitments in many areas. China can be expected to do the same, but with an even greater likelihood of success.

Five years into the Uruguay Round agreements, after all the pronouncements about "open markets," an analysis by ATMI has found that no significant new market access for U.S. textile and apparel products has occurred as a result of the agreements. *In fact, those markets that were closed at the end of the Round are still just as tightly closed today.* Indeed, India, Argentina and Brazil are among the many countries that have raised new barriers to U.S. textile and apparel exports.[4]

In the interim, the United States has kept its word and let in billions of dollars worth of additional textile and apparel imports from these countries at the cost of thousands of U.S. textile and apparel jobs. Now the United States is poised to make the same fundamental mistake with China—to open our market to a flood of Chinese imports with no certainty that we will get any real market access in return. Instead, history virtually guarantees that more U.S. workers will lose their jobs and that, in the next round of WTO deliberations, real free trade issues will be forced to take a back seat.

In short, ATMI does not believe that the United States should give China the kind of extraordinary preferential access to its market that this accession package envisions. China has not warranted such favoritism, nor do U.S textile workers and companies deserve to face a huge onslaught of subsidized imports from China. China's past practices should, if anything, teach us not to award China any benefits until it has proven that it can keep its word. We urge the Committee to reject permanent NTR with China and send this agreement back to be renegotiated on terms more equitable to U.S. textile firms and U.S. workers.

[An attachment is being retained in the Committee files.]

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[3] The United States will also lose any leverage that an annual NTR vote in Congress provides.

[4] While the U.S. has recently won trade barrier cases against both India and Argentina, both countries instituted new trade blocking measures—this time apparently WTO legal ones -and both markets remain essentially closed to U.S. exports.

Statement of CIGNA Corporation, Philadelphia, PA

Headquartered in Philadelphia, CIGNA is a leading provider of health care, employee benefits, life insurance and financial services with more than $95 billion in assets and operations in 30 countries. Domestically, CIGNA ranks among the largest investor-owned insurance organizations, with shareholder equity of $6.1 billion. CIGNA has 39,000 employees in the United States.

CIGNA's operating subsidiaries offer one of the broadest arrays of innovative, high-value products and services. These include:

• Managed medical and dental care products, group indemnity health insurance and related services;
• Group life, accident and disability insurance;
• Retirement and investment products and services;
• Life, accident and health reinsurance products and services;
• Investment management for CIGNA's insurance businesses and customers; and,
• For international clients, life, accident and health insurance and employee benefits products and services.

CIGNA and one of its predecessor companies have a long history in China. These ties go back as far as 1793 when the Insurance Company of North America ("INA") insured a ship bound from Philadelphia to Canton. INA was also the first American insurance company licensed to do business in China, when it appointed the Yangtze Insurance Association in Shanghai as its representative in 1897. INA expanded and operated in 20 cities throughout China through the 1940's. In 1994, CIGNA Corporation reestablished a representative office in Beijing and subsequently opened representative offices in Shanghai and Guangzhou. While the CIGNA organization sold most of its property and casualty operations, including INA, in July 1999, CIGNA retained the employee benefits operations formerly associated with INA and has applied for a license to write such insurance coverages in China.

Since applying more than five years ago for a license to operate in China, we have worked with China's Insurance Regulatory Commission, the People's Bank of China, Chinese academic institutions, domestic insurance companies and other organizations on policy studies, exchanges and educational programs. We undertook an unprecedented study with the Ministry of Labor and Social Security on developing policy options for an employee supplementary health insurance program that is now being implemented. This new program paves the way for a major role for the provision of private supplementary insurance for urban workers. It is through these efforts that we have gained a comprehensive understanding of the Chinese insurance market.

CIGNA regards China as a key priority in its overall international strategy. China represents potentially the largest single insurance market in the world with the World Bank estimating that it will be the largest economy early in this century. China's rising middle class is pressing for improved health care, employee benefits, retirement programs and life insurance. As a sign of our confidence in the Chinese economy, CIGNA has invested approximately $200 million in China related public and private investments.

Until now only a small handful of foreign insurance companies have been granted limited licenses to operate in Shanghai with only one such company permitted to operate in Guangzhou and Shenzhen. Foreign life insurers have been limited to mostly individual life insurance products as they have not been permitted to offer group life, health insurance and pension products.

When the U.S.—China market access agreement was signed on November 15, 1999, CIGNA enthusiastically welcomed the agreement as "historic." In this agreement, China has committed to open its markets across the broad spectrum of industries, including insurance. When China accedes to the World Trade Organization, China will subject itself to WTO rules, regulations, and disciplines. It will also grant American companies "national treatment" and open up access to China's domestic market. China has never done this before.

The implementation of the U.S.—China market access agreement and China's accession to the WTO will allow CIGNA to offer a full range of products and services throughout the country within five years. According to the agreement, China will:

• Award licenses solely on the basis of prudential criteria, with no economic needs test or quantitative limits on the number of licenses issued.

• Open up more cities, including Shanghai and Guangzhou, for foreign insurance licenses upon accession and eliminate all geographic limitations within three years.

• Expand the scope of activities for foreign insurance companies to include group, health, pension and annuities, phased in over a period of years.

• Permit foreign property and casualty firms to insure large-scale risks nationwide immediately upon China's accession to the WTO.

• Allow 50 percent foreign ownership for life insurance and allow foreign insurers to choose their own partners.

• Allow foreign branches for non-life and 51 percent foreign ownership of local subsidiaries upon accession and wholly foreign-owned subsidiaries in two years.

• Completely open reinsurance on accession.

This is precisely the kind of market access the U.S. insurance industry needs. CIGNA strongly urges Congress to extend permanent normal trade relations to China, the same treatment that the United States grants to 132 other members of the World Trade Organization. Unconditional and permanent NTR is also a WTO requirement. Failure to enact PNTR for China into law will mean that U.S. companies will not gain the benefits from the agreement that the United States negotiated and will be denied this broad and unprecedented access to China's economy. It will mean that we will stand by and watch our foreign competitors take advantage of our hard-won agreement.

Aside from the obvious benefits to the U.S. services industry, manufacturing, and agriculture, China's accession to the WTO and our bilateral agreement is a major step toward strengthening Sino-U.S. relations. No one can deny that U.S.—China relations have been strained at times over specific incidents. With or without permanent normal trade relations with the United States, China is emerging as a global economic power. It is very much in our interests and the best interests of the rest of the world that China becomes part of the rules-based international trading system and that our two economies continue to expand their trade ties with unfettered access to each other's markets. This is good for both peoples. It brings jobs to America and increases the standard of living for the Chinese. It also increases understanding and helps us develop regular and predictable ways of learning to live together. We firmly believe that increased prosperity in China has been and will continue to be a very positive force in expanding the average person's freedom of choice and political awareness. China is a huge country and change does not come easily for 1.3 billion people. China has opened its economy and society to the outside world. This has made and will continue to make political change inevitable.

CIGNA, therefore, strongly urges Congress to enact legislation granting China permanent normal trade relations as soon as possible.

Statement of Frederick W. Smith, Chairman, President and Chief Executive Officer, FedEx Corporation, Memphis, Tennessee

Mr. Chairman and Members of the Committee,

I am pleased and honored to have the opportunity to appear before you today on the critical issue of China's accession to the World Trade Organization (WTO) and on the need for the U.S. Congress to pass legislation to extend permanent Normal Trade Relations (NTR) status to China. I appeared before you on June 8, 1999, and outlined why I strongly believe that these actions are in the best economic interests of the U.S., including FedEx and the air express industry.

As I stated last June, no single issue is of greater importance to the U.S. economy than the long-term health and viability of the world trading system. The direct and indirect implications for American business and the American economy are profound. This is even truer today than it was last summer, in the aftermath of the failure to launch a new round of multilateral trade negotiations at the Seattle ministerial meeting in November. Protectionist forces are at work to turn back the progress we have made to open foreign markets and maintain a fair and open trading system under the auspices of the WTO. Such forces have now set their sights on stopping China from joining the WTO.

That course of action is clearly wrong, and I urge this Committee to move swiftly to provide permanent NTR status to China, helping to facilitate its becoming a member of the WTO. The bilateral agreement negotiated between the U.S. and China is a good one. It will substantially open China's markets to U.S. exporters without requiring the U.S. to take any additional market opening measures to China beyond providing, on a permanent basis, the NTR status that we have provided to China on an annual renewable basis for a number of years.

The position of FedEx is unequivocal. FedEx supports China's accession to the WTO and, with it, the extension of permanent Normal Trade Relations (NTR) rights by the U.S. to China—just as we have with every other major trading partner. Simply put, China's accession to the WTO will move China's economy toward integration with the global economy, and this is good for American business. I have conveyed this view to Ambassador Barshefsky, whom I want to commend for having done an outstanding job in concluding this agreement.

WTO accession will also help FedEx be a more effective competitor. For example, I am particularly encouraged at the liberalization scheduled for the distribution field. With China's WTO accession, FedEx would have the ability to sell its services directly in the market place in four years, instead of leaving it to agents. With China integrated into the WTO, our decisions on how to operate in China would be based on commercial considerations, not determined by government fiat.

Mr. Chairman, we are facing both a challenge and opportunity. It is high time that we focused our efforts on making sure that Americans understand how and why free trade works to their benefit. We need to show the country that we are prepared to do everything we can to encourage export opportunities for U.S. business in international markets. This is particularly important in the case of China. We need to review our tax and other policies to eliminate barriers to competitive opportunities for U.S. businesses. You held hearings on this subject last year. We support your efforts.

In addition, improved transportation and facilitation services are critical to developing U.S. export opportunities. I have made that a goal of our company and I am proud to state that we carry nearly three times as many U.S. express export shipments. as our nearest competitor. Put simply, where FedEx flies, U.S. exports follow.

The U.S. recently concluded a new aviation agreement with China, which was a step in the right direction. Nevertheless, it was a disappointment for FedEx and its customers. Notwithstanding the importance of promoting U.S. exports in this market for the U.S. economy, FedEx is still the only carrier that lacks the ability to provide twice-daily service to China. Yet we serve more cities in China—Beijing Shanghai and Shenzhen—than any other U.S. carrier. What we need is a minimum of 24 weekly flights to China—instead of our current 10—that would allow us to provide daily service to each of China's four major industrial centers—Beijing, Shanghai, Shenzhen (in the South) and Dalian (in the North). That's what we and our customers/exporters need.

The reason I point this out, Mr. Chairman is that we are facing a crisis of confidence in our trading system. We need to refocus our efforts on doing everything we can to make it possible for American businesses to compete fairly in these important new international markets. If we don't, the American public will continue to lose confidence in the benefits of a free and open international trading system. We simply cannot afford to let that happen.

Let me try to explain my perspective on the question of China's WTO accession by briefly relating the role of the air express industry to trade facilitation; outlining the obstacles we face now in China; and assessing how WTO accession affects our situation.

Even within our own country many do not realize the rapidly changing nature of world trade and the increasingly critical role of integrated air express. At present almost 40 percent of the value of all world trade goes by air. Representing only some two percent of the tonnage of trade, air shipments clearly account for the high value end of production.

Today's trends in e-commerce and just-in-time logistics underlie the phenomenal expansion of the integrated air express industry and reinforce growing requirements for fast, time-definite transportation of cargo from door-to-door. Air express is both a cause of, and a response to, the changing nature of competition in international markets. The ability to ship packages to destinations around the world in only hours or days widens the field of competition in all industries and accelerates the pace of commerce.

No country can expect to operate a modern economy or be at the forefront of trade in the 21st century without a strong air express service. China is no exception. At present, outside of WTO discipline, China is a hodgepodge of regulatory barriers to efficient air express service. Let me cite a few.

Currently, foreign-owned companies are not allowed to conduct customs brokerage and clearance, ground transportation, warehousing, consolidation, forwarding, or related services. These functions, which lie at the heart of an integrated air express carrier's operations, all have to be conducted through joint ventures or agents without regard to the commercial considerations or whether such an arrangement improves the ability to provide express delivery services.

Joint venture regulations raise further issues. We are prohibited from taking a majority share of a joint venture and are limited geographically in where and how fast we can expand joint venture operations. As a non-majority partner, we do not control the sales force and have no guarantee that introduction of new technology will yield optimum returns.

There may be good reasons to have an agent or Joint Venture partner for some functions in the distribution chain, but the decision should rest on commercial interest not regulatory restrictions. The net result of these artificial barriers is increased prices for our customers, lower quality of service and artificial limitations on growth—for the integrated express carrier and the Chinese economy.

How does China's WTO accession affect this? Simply put, the restrictions I have noted above in the distribution field would be removed within four years. FedEx would be able to set up wholly-owned subsidiaries and, for the first time have the opportunity to provide the same standard of service to customers in China that we do in the U.S. and elsewhere in the world.

Of course, some will say that the Chinese may not keep their commitments. But, at least, if China were a WTO member, it would have to justify its actions before that body. The more a part of the system China becomes, the more the outside factors influence its behavior. In other words, the costs of non-compliant behavior will go up. That is no guarantee of implementation, but it is an important, even critical, step in creating a more open, user-friendly economic environment in China. At present, if we encounter problems, there is no recourse to any system other than the homegrown variety. I prefer to take my chances in the more transparent WTO environment.

Finally, let's consider the alternative: a world trading system which excludes China. Does a China less subject to the discipline of the World Trade Organization transform itself more or less quickly into a responsible member of the world community? Does more or less contact with China influence it in a positive direction? Does attempting to isolate China from the responsibilities of WTO membership advance anyone's interest but those who oppose reform and a more modern, open China?

I think the answers to these questions are self-evident. Few would dispute that China has changed for the better in the past twenty years and that the lives of individual Chinese have improved. Livelihood, freedom of choice and, gradually, even human rights have become better than at any time in modern Chinese history.

American business has played an important role in this transformation. The very presence of American business has exposed the Chinese to a culture where individual rights are respected and human dignity valued.

I am particularly proud that FedEx has actively participated in this effort—through humanitarian missions bringing critical medical and relief supplies to several Chinese cities and provinces ravaged by floods and other natural disasters.

The trend toward openness and reform is in the right direction, and American business has been a positive force for change. I believe the continuation of this trend is in the interest of everyone and that China's accession to the World Trade Organization and the establishment by the U.S. of permanent, normal bilateral trading relations with China is fundamental to its achievement.

Thank you.

Statement of Footwear Industries of America, Inc.

This statement responds to the House Ways and Means Committee's request for input on China's accession to the World Trade Organization (WTO). It is submitted on behalf of Footwear Industries of America, Inc. (FIA), a trade association representing domestic manufacturers and distributors of nonrubber footwear, and a substantial portion of their suppliers. The domestic nonrubber footwear industry encompasses men's, women's, children's, athletic, work, slippers, and other footwear. The industry is located in 34 states where it operates in over 300 footwear manufacturing establishments.

Given China's enormous population, and growing economy and consumer class, the potential for sales of U.S. products in the Chinese market is enormous, but not under current market access conditions. Notwithstanding the prior MOUs signed with China on market access and intellectual property, China is still clearly a very difficult place to do business. U.S. products face high tariffs and non-tariff barriers. Intellectual property rights protection falls far short of what it should be and the Chinese economy is riddled with subsidies. Moreover, distribution and retail barriers make it extremely difficult for U.S. goods to find their way to Chinese consumers. Additionally, Customs procedures are arbitrary, irregular, non-transparent, and vary from port to port.

In the WTO market access bilateral, China agreed to many reforms of its nonmarket-based economy, including the phase out of the most egregious barriers that block access to Chinese consumers. While there is much to commend in the paper agreement, Chinese implementation of these commitments and how they will be policed are issues that Congress must thoroughly address as it considers legislation to grant permanent Normal Trade Relations (P–NTR) to China. After all, China's track record with the United States on some key bilateral trade agreements has not been a good one. And we will no longer have the stick of NTR withdrawal to get China's cooperation. Nor can our industry take particular comfort in the fact that China's membership in the WTO will require adherence to WTO trading rules. The long-standing and still unresolved U.S. dispute with Argentina, which is being arbitrated at the WTO, over that country's illegal footwear tariffs and subsequent unjustified safeguard action does not persuade us that China's entry into the WTO will be the "magic bullet" to market access and Chinese internal reform that it is being made out to be.

Access to the Chinese market, protection of intellectual property rights, national treatment for investment, lower tariffs, and proper and timely customs procedures are key issues for U.S. footwear companies and suppliers of footwear components. Given the access and import penetration that China has achieved in the U.S. footwear market, these demands by our industry seem small indeed.

Footwear is extremely important to China's economy and export performance. China's second leading export to the U.S. market is footwear. China is also a major supplier of footwear to France, Germany, Italy, Spain, and Canada, all of which have some sort of restraints on Chinese footwear. As discussed below, Chinese footwear has saturated the U.S. market, and unlike Europe and other countries, the U.S. imposes no restraints or other nontariff barriers to its entry.

China is the predominant supplier of footwear to the U.S. market. In the ten-year period between 1989 and 1999, U.S. imports of Chinese footwear rose from $694.4 million to an astounding $7.5 billion. In quantity terms, the dominance of Chinese footwear is even more commanding. Chinese footwear represents around 76 percent of all U.S. footwear imports, and nearly 70 percent of all shoes sold at retail. In 1999, U.S. imports of Chinese footwear totaled 1.13 billion pairs, dwarfing all other suppliers. By contrast, U.S. exports to China in 1998 were a mere 158 thousand pairs.

Market reciprocity is a key issue for FIA members and China has the potential to be an important market once current barriers come down. To ensure that the promised access to China's vast market is realized, Congress should consider adding additional safeguards toward this end to legislation that will implement P–NTR.

Statement of Brent Blackwelder, President, Friends of the Earth

Friends of the Earth is a national environmental advocacy organization with affiliates in 63 countries around the world. We do not oppose international trade, but believe it must go hand-in-hand with environmental protection, human rights, and labor rights. We do oppose granting permanent Most Favored Nation trade status to China. Until China changes its ways and begins respecting environmental, human rights, and labor concerns, Congress should not relinquish this opportunity to use the trade debate to shine a light on China's abuses. We believe granting permanent Most Favored Nation status will undermine environmental efforts to reform the World Trade Organization (WTO), and think the United States should instead focus on democratizing the domestic trade policymaking process.

By all accounts, China will eventually be admitted into the WTO—Congress does not have the authority to approve or prevent its accession. However, by granting China permanent Most Favored Nation status, Congress will put a symbolic stamp of approval on a trade deal whose implications run counter to environmental, democratic, human rights and labor concerns.

The WTO already has more than enough problems. In the five years since its creation, it has been used repeatedly to weaken environmental regulations, including the Clean Air Act and Endangered Species Act. What's worse, these decisions have been made in closed-door sessions with no public input. Friends of the Earth and other environmental groups have been calling on the Clinton-Gore Administration to prioritize environmental and democratic reform of the WTO. We've pointed to the need to make sure WTO rules defer to environmental ones rather than overturning them as barriers to trade. We've said the WTO needs to make room at the negotiating table for the public. The Administration says they'll push for these reforms, but the deal with China belies their rhetoric.

Since the WTO operates by consensus, one country can thwart reforms sought by others. We fear that China, with its anti-democratic government and history of human rights abuses, will take a leading role in blocking efforts to make the WTO more open and to address its effects on the environment and workers' rights.

China continually flouts international agreements and strong-arms other countries. Consider our recent experience with the World Bank, which had proposed a damaging resettlement project that would harm ethnic Tibetan minorities. While the US opposed the loan, China bullied other countries into approving it, threatening to withdraw from the Bank if it didn't get its way. If China uses this type of tactic at the WTO, the environmental and democratic reforms we so sorely need will never come to pass.

The deal to admit China to the WTO is environmentally flawed in and of itself. The Clinton-Gore Administration issued an Executive Order requiring environmental assessments of trade deals just days before its negotiators sealed the China agreement—a deal which totally ignores the substance and spirit of the Executive Order. The agreement with China confirms public perceptions that trade liberalization just benefits corporations. It does not discuss environmental issues, and does not require the US corporations who will benefit the most to operate in an environmentally or socially responsible manner. In fact, it leaves the door wide open for US companies to move their business to China to avoid US regulations.

At a minimum, right-to-know obligations that guide US corporate behavior domestically should be extended to corporate investments in China. This would give Chinese workers and communities information about corporation's practices and also give the US public and regulators a way to test company's claims about their environmental practices in China. Similarly, no matter what the outcome of the permanent Most Favored Nation debate, the US should allow Chinese workers and community members to sue US companies in US courts. US corporations should announce a policy of not seeking to block lawsuits filed in US courts based on allegations of misconduct in China. Congress should also pass a law similar to the alien tort claims act (which applies mainly to torture) that makes it easier for foreign workers and community members to seek redress in US courts for environmental or health implications of US companies.

Instead of devoting all its energy into putting a stamp of approval on a flawed trade deal, the United States should focus on passing common-sense reforms of the domestic trade process. Congress and the Administration have voiced concern about China's lack of democracy and have echoed our call for a more open, democratic WTO—but democracy starts at home. Giving the public a greater voice in the domestic trade policymaking process, currently dictated by the United States Trade Representative (USTR) and beholden to corporate interests, will lead to greener trade policy that inspires public confidence in international trade.

As a first step, Friends of the Earth believes USTR's numerous advisory committees must be opened to environmental organizations. Approximately 700 business representatives sit on 30 industry sector advisory committees that get special access to information and advise USTR. There are no public interest members on these committees. Even worse, the Administration has appealed a recent court decision requiring environmental representation on two advisory committees dealing with forest products. These committees need to be opened to diverse public interests or abolished.

Second, we believe Congress and the Administration should shift decision-making authority over trade and environment issues away from USTR and to environmental agencies. A decade of advocacy on trade and environment issues has led us to the inescapable conclusion that the main trade threat to the environment USTR itself. Though USTR lacks environmental expertise and is beholden to business interests, it plays the lead role in setting US policies on trade and the environment. Environmental agencies like the Environmental Protection Agency (EPA) and the Council on Environmental Quality (CEQ) should play the lead role in setting the environmental aspects of US trade policy.

Statement of Chuck Hoberman, President, Hoberman Designs, Inc., New York, NY

My wife and I founded our company, Hoberman Designs in 1995 to manufacture a line of toys based on my patented inventions. Our product is manufactured in China by factories offering high-quality production at competitive cost. We, in turn, provide significant business to these factories, and look to form long-term partnerships with them. Even as we build these relationships with our manufacturing partners, other Chinese manufacturers (not own factories!) copy our products with impunity. Our most popular product (called the Hoberman Mini Sphere) has been slavishly copied by, no less than 12 Chinese factories that we have identified. These counterfeits are often made in sweatshop conditions; are constructed of inferior materials, easily broken and may be hazardous to the consumer.

Despite having worldwide patent and copyright protection for my designs, we have no legal recourse in China to prevent these "knock-offs" from being made and sold. Rogue factories aggressively market their copies to customers in Europe, North and South America and throughout Asia. Further, they make extensive use of the internet to erase all boundaries in offering their counterfeit goods. Often their own websites offering counterfeits are under the umbrella of Chinese government websites.

To be clear, we are not talking about goods sold in China itself. While these counterfeits are, indeed, sold extensively within China, we have no plans at this time to enter the Chinese market. Our real problem is that the copies are sold in *every market around the world that we sell in.* Despite having crystal clear proprietary rights to the products, and despite having an aggressive legal strategy to pursue anyone who infringes those rights, we are at perpetual disadvantage because we cannot reach the productive base itself.

The costs from this problem—legal fees, downward price pressure to compete against cheap copies, lost business due to confusion in the marketplace—are sometimes overwhelming.

Our experience clearly demonstrates that while we offer to Chinese factories the benefits of high volumes orders and high price points, we do not get any degree of protection from counterfeiting by Chinese manufacturers of products covered by proprietary rights in other countries.

The admission of China to the WTO and the extension to China of normal trade relations should be accompanied by a recognition that as a trading partner China must be obligated to respect the intellectual rights of US and other countries.

In exchange for our willingness to treat Chinese factories on an above-board basis and certainly in exchange for normalization of trade relations, we need to secure the reciprocal benefit of knowing that we can enforce our proprietary rights against infringers in China.

Hoberman Designs, like many other American manufacturers have a direct and import stake in this issue, whether they make clothing, chip, recording, toys, or hi-tech devices. Even with normalized trade relations, if it remains true that American businesses cannot enforce their intellectual property rights against Chinese infringers, then we will have lost, rather than gained, ground.

As a *quid pro quo* for the further extension to China of more normalized trade relations, it must be clearly understood that reciprocity by the Chinese in honoring intellectual property rights of other trading partner nations is a must. Otherwise, welcoming China into the club of trading nations represents a concession for which American businesses receive little or no benefit; indeed, the responsibilities and obligations may well outweigh the benefits of doing so.

The Berne convention, the New York convention, and other, similar mutual or multi-lateral trading schemes have demonstrated the benefits of reciprocity among trading partners. We should be ardently working to demand the same reciprocity from the Chinese in exchange for the normalization of trade relations.

My wife and I have build our business, Hoberman Designs, by offering unique products that enable the consumer to connect with an individual inventor. I feel our business exemplifies uniquely American values—a commitment to innovation and individual initiative. Rather than permitting the Chinese to undermine these values by ignoring the right to intellectual property, it is my sincere hope that an equal and reciprocal relationship may be created where such values may flourish.

Statement of International Mass Retail Association, Arlington, VA

This statement is submitted on behalf of the International Mass Retail Association (IMRA), which represents the mass retail industry—consumers' first choice for price, value and convenience. IMRA's membership includes the fastest growing retailers in the world—discount department stores, home centers, category dominant specialty discounters, catalogue showrooms, dollar stores, warehouse clubs, deep discount drugstores, and off-price stores—and the manufacturers who supply them. IMRA retail members operate more than 106,000 American stores and employ millions of workers. One in every ten Americans works in the mass retail industry, and IMRA retail members represent more than half a trillion dollars in annual sales.

All of IMRA's members are dependent upon imports to provide American consumers with quality and value. Many IMRA members import products directly from

China. Others sell products that have been imported by American brand-name consumer product suppliers. China is an important source of supply for such every-day products as clothing and toys. In addition, a handful of IMRA member companies operate stores in China.

Consequently, IMRA's member companies have a strong interest in seeing stable U.S.—Sino relations, both political and economic. IMRA strongly supports the U.S.—China bilateral agreement on accession into the World Trade Organization (WTO) that was completed last November along with permanent Normal Trade Relations (PNTR) status. This agreement provides significant new opportunities for American businesses to access the Chinese market. In order for American companies to realize the benefits of this deal, Congress must now grant China PNTR. PNTR not only provides great opportunities for U.S. exporters, but for those U.S. importers who rely on low tariffs on goods from China, PNTR will alleviate the fear that importers have of NTR being revoked and tariffs jumping from an average of 4% to an average of 60%.

PNTR Benefits U.S. Retailers and Consumers

Since 1989, U.S. retailers have been extremely concerned about China's NTR status being revoked by Congress. If this were to occur, serious economic repercussions would result, harming U.S. consumers, retailers and manufacturers. The loss of NTR status would mean markedly higher import tariffs on a wide range of products, from footwear to toys to consumer electronics. Tariffs would increase on from an average of about 4% to an average of 60%. In some cases, the duty would jump as high as 100%.

More important, tariffs of 60% or more would result in products simply disappearing from the marketplace. Suppliers would not be able to shift production swiftly; and in many cases alternate suppliers cannot produce products at the same value price. In the past, the NTR vote has occurred in June or July, which are the peak months for importing Christmas merchandise. Revocation of NTR would mean significantly higher prices and shortages of key Christmas products. This obviously would hurt American families more than it would the Chinese. The 5 weeks of the Christmas shopping season account for about 25% of U.S. retail sales for the entire year.

Consider the following holiday products that could be affected:

China accounts for more that 50% of all toy imports. Revocation of NTR would sharply increase the price of toys in the U.S. This would lead to a reduction in the variety of toys available on IMRA members' shelves. Many of today's most popular toys might not be affordable for American consumers if NTR is revoked.

China is also a major exporter of *portable tape* and *compact disc players* to the United States. The average price for these products is about $84. Without NTR, these products would jump to a price of about $110. That's a 31% jump. Importers might be able to shift supply to Malaysia, but the average price for this product is about $98.

Apparel is another important Christmas product for mass retailers. China is an extremely important source of value-priced cotton and man-made fiber products, and is one of the only sources of silk apparel products such as high-quality women's silk blouses. A loss of NTR would mean a price increase of over 50% for these products. This dramatic increase would affect many consumers' ability to afford these products and would force value-priced silk and cotton products off the shelves of mass retailers.

Over 60% of the *footwear* sold in the United States is produced in China. Many U.S. consumers rely on the inexpensive footwear produced in China and sold in mass retail stores. The inexpensive boys leather sports footwear, such as high tops, tennis shoes and snow boots would all increase by an average of 15%. This could be devastating to the low-income consumer, preparing to outfit their kids for back-to-school this fall.

IMRA's catalog and Internet members also depend upon the annual renewal of NTR. Many of these companies are putting the finishing touches on their Christmas catalogs right now. By August, their catalogs will be printed with final prices. A loss of NTR means that these companies, along with their suppliers would be unable to fulfill orders; and would be precluded, under state fair advertising laws, from raising prices. Holiday catalogs cost millions of dollars to print, and their shelf life is very long.

Granting China PNTR will end the concerns that retailers have every year about loss of NTR tariff status on goods imported from China. PNTR will also allow U.S. consumers to enjoy the every day low prices they are accustomed to in IMRA member stores. Consumers depend on these prices, especially around the Christmas shopping season.

Benefits to U.S. Retailers Operating in China

Currently, American retailers face numerous obstacles in opening stores in China. Chinese licensing requirements are onerous and obtaining a license can take months or even years. More important, large-scale retail operations, with many stores, are impossible, because China requires that each store location must be separately licensed and financed with unique local partners.

Under the agreement, the ability to obtain licenses will be made easier, although equity restrictions will still be placed on stores larger than 20,000 square meters and retailers with more than 30 stores. Unfortunately, those IMRA members wishing to operate in China fit those categories. IMRA suggests that the U.S. work out these restrictions as part of the broader WTO Negotiations on Services.

Another key provision of the U.S.—China WTO accession deal is China's agreement to liberalize restrictions on their distribution system. Currently, American companies can only distribute goods that they manufacture in China and cannot own or manage distribution networks or warehouses. The ability to control the distribution process is the lifeblood of an American mass retailer. Under the current deal, the Chinese agreed to phase out all restrictions on distribution services within three years.

For retailers, this means removal of restrictions on foreign equity share, geographic restrictions and number of service suppliers. American retailers will now be able to import and distribute American made products to their stores in China. The easiest way for American products to penetrate the Chinese market is to be sold through an American mass retail store in China.

Rules and Safeguards

Many in Congress have expressed concern about the ability to enforce the Chinese WTO accession agreement. It is important to remember that once China becomes a member of the WTO, it would be obligated to play by the rules or be subject to the WTO's dispute settlement process. This process has proven to be very successful for the U.S. (e.g., WTO ruling on the EU banana dispute). What's more, Chinese membership in the WTO provides ample opportunity for further negotiations to liberalize its trade regime.

There are also those who claim that allowing China to join the WTO will do nothing to further human rights or democratic change. These individuals couldn't be more wrong. Inclusion in the WTO will do just that. A strong economic and trade relationship—based on mutually agreed-upon rules such as those embodied by the WTO—will result in change. One has only to look at the progress being made in places like South America to see how economic relationships foster democratic processes.

Progress can only be made when the rest of the world decides to push for change, not just the U.S. The best example of a failed attempt to bring about democratic change unilaterally is the 40 plus years of isolationism between the United States and Cuba. Cuba remains a Communist nation today because the rest of the world has decided to maintain commercial relations, while the United States, which could be Cuba's closest trading partner, has decided to isolate Cuba in an attempt to end Communism. This will never work. As a member of the WTO, China will be forced to open its doors and allow not only goods, but also ideas into its closed economy. This is the greatest agent for change within China.

Some have expressed a fear that once China gains entrance into the WTO, it will flood the U.S. market with cheap goods, displacing U.S. workers. Because of this fear, the current agreement includes a product-specific safeguard as well as a special safeguard covering textiles and apparel.

IMRA has some concerns about how these safeguards will work in conjunction with each other. The United States should not be able to use both safeguards on the same product at the same time. IMRA believes that while the special textile/apparel safeguard exists (from 2005–2008), the general safeguard should not apply to these products.

IMRA is also concerned about the process the United States will be using to determine market disruption under the twelve-year product-specific safeguard. IMRA strongly urges Congress to use the procedures set forth in Section 406 of the Trade Act of 1994, as amended, for determining market disruption. This process ensures due process for all interested parties.

Conclusion

Granting China PNTR and allowing it to join the WTO is a win-win for American businesses, both importers and exporters, and U.S. consumers. WTO accession will open a Chinese market that is currently closed. American retailers will be able to open up stores and act as a beachhead for U.S. consumer products in China. Only through PNTR will all of the benefits of the accession deal be realized. Being a member of the WTO will also force China to "play by the rules" as set by the WTO. This is key for bringing about democratic change within China.

Statement of Thomas F. St. Maxens, St. Maxens and Company, on behalf of Mattel, Inc., El Segundo, CA

This statement is submitted on behalf of Mattel, Inc. in connection with the February 16 hearing conducted by the House Committee on Ways and Means regarding the U.S.—China bilateral trade agreement on China's accession to the World Trade Organization (WTO). Mattel strongly supports China's accession to the WTO upon the terms reached under the U.S.—China bilateral agreement on November 15, 1999, as well as congressional approval of legislation granting permanent normal trade relations (NTR) status to China.

Headquartered in El Segundo, California, Mattel is the world's largest toy company with 1999 sales of $5.5 billion in over 150 countries. Mattel has 31,000 employees, of whom 7,700 are in the United States.

China's accession to the WTO is a matter of major importance to Mattel and the rest of the U.S. toy industry given its exceptionally strong economic ties with China. The American toy industry became the world's leader, as reflected by its 50 percent share of the global toy market, by drawing on the United States' competitive edge in such areas as product conceptualization and design, design and development engineering, and strategic marketing. In the case of Mattel, virtually all of these critical functions are performed for Mattel's worldwide operations by the 2,000 workers at the company's El Segundo headquarters.

The other key to the U.S. toy industry's success has been its ability to produce these innovative, high quality toys at the most competitive cost. This has required a constant adaptation to changing conditions of competition, which has caused the industry to shift much of its manufacturing operations through a series of countries and, eventually, to China and other low-cost Asian suppliers. China has been the dominant supplier of toys to the U.S. and foreign markets throughout the 1990s, and is likely to remain so for the foreseeable future. Sourcing product both from joint ventures and unrelated vendors in China, U.S. toy companies imported roughly $10 billion of toys from China in 1999, accounting for two of every three toys purchased by American families. This approach—combining high value-added American operations in product conceptualization and design, design and development engineering, and strategic marketing with low-cost, high quality production overseas, mainly now in China—is the key to the U.S. toy industry's global success.

China's accession to the WTO will further support the interests of U.S. manufacturers and consumers of toys in three ways: (1) it will give U.S. toy companies access to the large Chinese toy market; (2) it will eliminate the uncertainty regarding China's continued access to the U.S. toy market that has been associated with the country's conditional NTR treatment; and (3) it will help U.S. toy companies by protecting the access of their China-origin products to third country markets.

The U.S.—China bilateral agreement on China's accession to the WTO achieves the U.S. toy industry's market access objectives in China by requiring China to completely eliminate its tariffs on toys (which currently range as high as 30–50 percent) by January 1, 2005. In addition, the U.S.—China agreement addresses several non-tariff barriers facing U.S. toy companies in China, such as the denial of trading rights that prevents Mattel and other foreign companies from selling directly to the Chinese market the toys they manufacture there.

In addition, China's accession to the WTO is a necessary precondition to stabilizing China's access to the U.S. toy market through the granting of permanent NTR status. The fact that the United States does not accord China permanent NTR status creates uncertainty for America's toy companies and exposes them to unwelcome risk. While the risk that the United States would withdraw NTR status from China may be small, if it did occur the consequences would be catastrophic for U.S. toy companies given the 70 percent non-MFN U.S. rate of duty applicable to toys. As a result, Mattel strongly supports congressional approval of legislation granting permanent NTR status to China upon its WTO accession.

Finally, China's WTO accession will help protect the access of China-origin products to third country markets, a matter of major importance to Mattel and other U.S. toy companies. As indicated above, U.S. toy companies are the most competitive in the world, and they are a major factor in almost all of the world's toy markets. In these countries, like in the United States, a major portion of U.S. companies' sourcing requirements is supplied by manufacturing operations in China.

The fact that Mattel's China-origin products are not protected by WTO rules has proven to be a problem overseas. For example, Mattel and other U.S. toy companies dedicated substantial resources to defeating safeguard petitions filed by the Argentine toy industry in recent years. The two investigations were rigorous, and Mattel was pleased to see the Argentine government abide by the WTO's disciplines for considering import relief actions under the safeguard code.

However, in January 1999, less than four months after the Argentine government had denied the second safeguard petition filed in two years, Argentina's Ministry of Economy announced substantial tariff increases for toys imported from China and other non-WTO members. This was a unilateral action that was not taken pursuant to any WTO-authorized procedures for implementing import restrictions. Obviously, the Argentine government would not have been able to take this unilateral action against China had the country been a member of the WTO.

The Argentine example is not an isolated one. Until recently, the EU subjected some categories of toys from China to quotas, an action that would not have been allowed under the WTO. Brazil currently maintains safeguard measures on toys and, while these measures do not currently discriminate against China as a non-WTO member, there is no assurance that that will remain the case in the future.

In conclusion, Mattel believes that China's accession to the WTO under the terms of the November 1999 bilateral agreement will bring major benefits to U.S. toy companies. It will help protect the ability of their cost-competitive Chinese operations to continue to supply the toy markets of the United States and other WTO member countries, to the benefit of consumers throughout the world. At the same time, China's accession also will open China's domestic toy market to the products manufactured by Mattel and other U.S. toy companies, presenting U.S. companies with significant opportunities for increased sales over the longer term.

In each instance, while toy manufacturing operations in China will benefit, less obvious but equally important beneficiaries will be the thousands of U.S. workers employed by Mattel and other U.S. toy companies in their high value-added U.S. operations that form the basis for the U.S. toy industry's position of global leadership. However, it is critical that Congress enact legislation granting permanent NTR status to China in order for Mattel and other U.S. companies to receive the benefits of China's WTO accession.

Respectfully submitted,

THOMAS F. ST.MAXENS
St.Maxens & Company

Statement of NPES, the Association for Suppliers of Printing, Publishing and Converting Technologies, Reston, VA

INTRODUCTION

NPES is a United States national trade association representing over 440 companies who are manufactures and/or suppliers of printing, publishing and converting technologies. NPES strongly supports free, fair trade. Because of our belief in this philosophy, we support the People's Republic of China's (China) accession to the World Trade Organization in order to encourage China's efforts to reform its state enterprises and banking system, and to continue lowering import duties. Moreover, we urge Congress to adopt Permanent Normal Trade Relations (PNTR) status for China, in order to implement the recent WTO accession agreement between the United States and China.

SINO-US PRINTING TECHNOLOGIES TRAINING CENTER

Since September 1997 NPES, along with its joint venture partner the Shanghai Printing Group Corporation, has developed and manages the Sino-U.S. Printing Technologies Training Center in Shanghai, China. The training center promotes the sale of members' products in China. Together with its 30 Technology Partners (member companies that have contributed equipment to the center) NPES is an active leader in the Chinese printing industry. Called "a highly creative and innovative effort" by the United States Commerce Department, the training center has produced more than $10 million in new export business for U.S. Technology Partners, and is but one example of our efforts to open up China to lucrative trade.

Direct Benefits to Printing, Publishing and Converting Equipment Manufacturers of Chinese Accession to World Trade Organization

As the worlds' third largest economy and the fourth largest U.S. trading partner, China is a nation that we cannot afford to turn our back upon. Last year the American printing industry exported more than $60 million worth of equipment and printed material to China, an increase of 24% from the previous year, and we are working hard to increase that total this year, and in the years to come. As part of its Ninth Five-Year Plan, China is committed to meeting the demand for modernizing its printing and publishing industry. This policy represents a great opportunity for American exporters of this technology. The reductions in tariffs and other trade barriers, which China would have to accede to under WTO protocols could only enhance American exports in this industry.

China's accession to the WTO would provide a series of direct benefits to the U.S. printing, publishing, and converting equipment industry. NPES Members will be able to offer their Chinese customers a leasing option for large printing equipment, an option not currently available under prevailing conditions. Chinese end-users would be able to have direct access to parts and supplies of printing, publishing and converting equipment and services. Finally, clear and transparent rules governing imports into China would enable U.S. manufacturers and suppliers to position and market their products and services. This last point would be especially useful, as NPES Members have reported experiencing great difficulties exporting spare parts to China. One member commented to us that, "we have a hard time getting warranty parts into China and an impossible time getting parts back to the U.S. for evaluation and repair." NPES Members also report that corruption and commission payments represent strong non-tariff barriers to trade with China. While WTO accession would not by itself solve the problem of Chinese corruption, the rules under which China would be required to operate would serve to throw the process open so that it would become more difficult to unfairly deny American exporters access to the Chinese market. NPES Members would also benefit from the ending of arbitrary or non-scientific standards that represent a significant non-tariff barrier to American imports.

American printing equipment manufacturers would also see a direct benefit from the extension of intellectual property rights enforcement in China. So far domestic competition within China, while priced at around 20% the cost of American imports, is of such poor quality that American-made printing equipment is considered far superior and worth the expense. However, should Chinese companies begin copying American designs and marketing their own versions of American products, as has happened in other industries, our members fear a significant reduction in their Chinese business.

Chinese Membership in WTO Meaningless Without PNTR

It can clearly be seen that Chinese admission to the WTO would have a significant, and positive, impact on the American printing, publishing and converting equipment industry. However, in order for these positive gains to be realized it is necessary for Congress to grant China Permanent Normal Trade Relations status. This is because unconditional normal trade relations are required under WTO protocol, and even an extension of the current annual review of NTR would violate WTO rules. Without PNTR American manufacturers would have the worst of both worlds, as China could still join the WTO, but American manufacturers would reap none of the benefits of the U.S.—China agreement.

Opponents have raised economic, social, and political objections to PNTR for China. We believe, however, that these objections should not sway Congress against granting PNTR. For example, it has been stated that the current U.S. trade deficit with China will only increase as inexpensive Chinese imports flood the U.S. market. This objection is refuted, however, by the fact that the agreement between China and U.S. is a litany of almost completely one-sided concessions by the Chinese that will serve to open the Chinese markets to more exports. The printing, publishing and converting equipment industry would expect to see little or no competition from Chinese imports.[1] This is due to the vastly superior quality of American equipment compared to its Chinese counterparts.

[1] In 1999 American imports of Chinese printing products amounted to only $9 million, compared with $60 million in exports.

CONCLUSION

NPES believes that the important technological integration taking place both in China generally, and in the Chinese printing industry specifically, is leading the way to Chinese economic integration. This integration is an effective tool with which to advance the broad range of U.S. national interests in China and all of Southeast Asia. Our members would benefit greatly from the implementation of the agreement between the United States and China that allows for Chinese accession to the World Trade Organization, and we encourage Congress to pass PNTR needed to facilitate that outcome.

It has also been argued that poor working conditions in China, China's poor overall human rights record, and its proliferation of weapons to other parts of the world will be tacitly endorsed and encouraged by the policy of engagement that is embodied in this agreement. We believe, however, that it is only through engagement with China that change will occur. A poor and isolated China is a dangerous international player, whereas an engaged China fully absorbed into the global trading community will lead to a safer world.

NPES thanks the Committee for this opportunity to submit testimony, and it is prepared to respond to questions or requests for further information.

Statement of National Retail Federation

Introduction

The *National Retail Federation (NRF)* is the world's largest retail trade association with membership that includes the leading department, specialty, discount, mass merchandise, and independent stores, as well as 32 national and 50 state associations. NRF members represent an industry that encompasses more than 1.4 million U.S. retail establishments, employs more than 22 million people—about 1 in 5 American workers -and registered 1999 sales of $3 trillion. NRF's international members operate stores in more than 50 countries.

NRF strongly supports the accession of China to the World Trade Organization (WTO) under the terms negotiated by the United States as stipulated in the U.S.—China bilateral trade agreement. That agreement offers substantial benefits to U.S. consumers, farmers, companies, and workers. The agreement will integrate China, the world's third-largest economy, into the global trading system and help to bring about positive economic and political change within China. China must undertake substantial reforms to open its economy and liberalize its domestic trade and economic policies and practices. But to benefit from China's WTO membership and the provisions in the landmark bilateral trade agreement, Congress must act swiftly to approve permanent normal trade relations (NTR) status for China.

II. *Permanent NTR for China Is Needed to End the Disruptive Annual NTR Renewal Process*

For years, the annual NTR renewal process has created instability in the U.S.—China relationship. This ongoing instability has hampered opportunities to export to, import from, and invest in China. Although Congress has granted China annual NTR continuously since 1980, the cycle of annual renewals and the uncertainty associated with the process result in costly disruptions that hurt both American consumers and U.S. businesses alike.

The uncertainty of the annual NTR renewal is particularly disruptive for U.S. retailers, which typically place orders for Chinese products 18 months prior to delivery. China offers American consumers many value-priced goods such as clothing, footwear, consumer electronics and toys, as well as products like silk apparel that are simply not available from other manufacturers in the United States. The continuing uncertainty of China's NTR status forces retailers to gamble. Should they pay other suppliers more to buy the goods they would have gotten from China, which would, in turn, force them to pass the higher prices on to their customers? Or should they risk the uncertainty of sourcing from China, hoping that NTR will continue, so they can realize cost savings which are passed on to their customers? In either case, the uncertainty is reflected in higher product prices for American families.

Opponents of permanent NTR for China have claimed that the United States can maintain the annual renewal process once China is a WTO member and still receive the benefits of the bilateral agreement. This is not the case. As a member of the WTO, the United States must grant China unconditional, continuous NTR status. Even if the United States continues to grant China continual annual NTR status, perpetuating a system that limits NTR status to a length of time would violate the requirement, because a time limit constitutes a condition in and of itself. Moreover, it is a limitation to which no other WTO member would be subject. Therefore, unless Congress grants to China the same permanent NTR status enjoyed by other WTO members, China would be within its right to deny to the United States many of the benefits of China's WTO membership.

Under Article XIII 3. of the Marakesh Agreement Establishing the World Trade Organization, PNTR legislation must be passed by Congress and enacted into law, before the WTO membership approves China's terms of accession. It should also be emphasized that Congress cannot prevent China from joining the WTO. That event will occur if two-thirds of the WTO members vote to approve the terms of accession. All Congress can achieve by failing to approve PNTR is to deny to U.S. companies and American workers the benefits of the U.S.—China bilateral trade agreement and Chinese membership in the WTO.

III. *The Textile and Apparel Provisions in the Bilateral Trade Agreement Will Benefit U.S. Consumers*

Virtually all textile and apparel imports from China are currently subject to some type of restrictive quota. These quotas distort trade and lead to higher clothing prices for American families. Under the provisions of the bilateral trade agreement, China will be subject to the WTO Agreement on Textile and Clothing (ATC), which requires that all quotas on textile and apparel products be phased out over a 10-year period ending in 2005.

A study by the U.S. International Trade Commission (ITC) found that applying the ATC to China would have impressive positive effects on the U.S. economy. The ITC predicts that applying the ATC to China would increase U.S. GDP by $1.9 billion and economy-wide welfare gains could reach $2.4 billion in 2006.

It must be remembered, however, that the benefits of applying the ATC to China will take many years to materialize. The United States has refused to integrate (release from quota) any textile or apparel products of importance to American consumers (save babies' wear) before 2005. Thus, even with the ATC, U.S. quotas imposed on imports from China remain intact for some time. Also the trade-weighted base growth rate of Chinese apparel quotas is very low: 1.33 percent. The ATC's accelerate growth provisions, which will apply to China once China becomes a member of the WTO, increase this base growth rate to just 2.0 percent in 2000. Thus, the accelerated growth provisions of the ATC will not result in surges of apparel imports from China.

The U.S.—China bilateral trade agreement governing the terms of China's accession to the WTO also includes two safeguard mechanisms that portend greater protection from increased textile of clothing imports than apply to any imports into the United States from any other WTO member. From 2005 to 2009, China will be subject to a special textile safeguard mechanism under which it will be relatively easy for U.S. textile and apparel producers to win extended quota protection from imports. After that, this trade will be governed by another stricter-than-Section 201 special safeguard that also promises a continuation of quotas into the foreseeable future. Although retailers are concerned that the protections afforded by these safeguards mechanisms as well as the U.S. antidumping laws will continue to restrict trade textile and apparel trade with China for some time into the future, these protections belie the dire scenarios painted by some of the PNTR opponents about the adverse impact on the U.S. textile industry.

IV. *The Bilateral Trade Agreement Will Improve the Ability of Retailers to Open, Supply, and Operate Stores in China*

Some American retailers are eager to open stores and sell products to the Chinese market. Unfortunately, that market is virtually closed to U.S. retailers. Foreign companies are only allowed to conduct retail business through experimental joint ventures. Stringent restrictions are also in place that regulate the geographic locations of stores, limit foreign ownership, and impose burdensome licensing procedures for new stores. In this environment retailers are not able to easily expand operations into the world's most populous market.

The good news for retailers is that the bilateral trade agreement would dramatically open China's distribution services. The agreement would allow foreign ownership, eliminate geographic limits on stores and grant foreign retailers full trading rights. In a recent study, the ITC determined that the removal of distribution services restrictions would allow U.S. retailers to boost trade and investment in the Chinese market and facilitate the opening of new stores. The liberalization of distribution services is also important for U.S. producers of manufactured and agricultural products that rely on retailers to sell their products in stores in China.

If Congress does not approve permanent NTR for China before its accession to the WTO, U.S. companies will be denied these benefits and foreign retailers will gain a huge advantage in the Chinese market. As U.S. companies miss out on the opportunity to open and operate stores in China, huge amounts of market share will be lost to foreign competitors, whose home countries have granted China permanent NTR.

V. *China's Membership in the WTO Will Promote the Kind of Change that America Seeks in China's Trade and Other Policies and Practices*

Membership in the WTO, including U.S. extension of permanent NTR, will promote the very change America seeks in many of China's trade and other policies and practices. As a member of the WTO, China will be held to its trade commitments by the WTO's dispute settlement system. WTO membership will make China subject to multilateral action by the organization's 135 members in trade disputes. The current U.S. tools, Section 301 and the annual threat of denial of NTR, have not achieved the kind of success that the WTO process can promise. Moreover, unilateral trade sanctions can threaten a similar action by the target country that can escalate into a destructive trade war. That threat is substantially diminished when the sanctions are imposed and approved by the multilateral rules of the WTO.

Excluding China from the international economic system will weaken, not strengthen, the position of courageous reformers in China. The cost will be long-sought improvements in China's human rights, nuclear proliferation, and other non-trade practices that these reformers support. Approving permanent NTR will send a strong sign to China that the United States is committed to those who would reform China and will be a partner in its transformation to a market economy.

VI. *Conclusion*

The importance of granting China permanent NTR status cannot be understated. The consideration of this matter by Congress later this year represents a historic opportunity that will fundamentally affect the progress of reforms in China and U.S. competitiveness in the global economy in the 21st Century.

When considering permanent NTR for China, members of Congress must remember that they are not voting on the admission of China to the WTO. China can become a member without the nod of the United States. Rather, Congress will decide whether or not the United States will receive the benefits of China's WTO membership. The U.S.—China bilateral trade agreement and the accession of China to the WTO offer tremendous benefits to all Americans and NRF strongly encourages Congress to act swiftly to approve permanent NTR for China.

Statement of J.T. Bunn, Executive Vice President, Tobacco Association of United States, Raleigh, NC, and Leaf Tobacco Exporters Association, Raleigh, NC

Mr. Chairman and Members of the Committee,

I am presenting this statement on behalf of Tobacco Association of United States and Leaf Tobacco Exporters Association. The members of these two organizations purchase, process, handle, and export virtually all U.S. leaf tobacco that enters foreign trade. These members supply U.S. grown leaf tobacco to manufacturers around the world.

We are extremely concerned about a serious phytosanitary trade barrier imposed by the government of China that prohibits the U.S. tobacco growers from having access to China's market. China's phytosanitary trade barrier prevents the importation of leaf tobacco from selected countries where a disease known as tobacco blue mold occurs.

In an effort to achieve the research of this non tariff trade barrier, work began in 1992 between USDA officials and China's Ministry of Agriculture to develop a research protocol and to conduct extensive research to determine whether there was any scientific bases for the ban on importing U.S. leaf to China. After protracted meetings and discussions with China's Agricultural officials and the China Animal and Plant Quarantine officials, the research protocol was finally signed with China's officials in 1995.

The blue mold research project included cooperation between China's scientists, U.S. Department of Agriculture scientists and North Carolina State University scientists. World renowned blue mold scientists from NC State University conducted the research work. Dr. Harvey Spurr led the project which also included Dr. Charles

Main. Both are highly published authorities on the blue mold pathogen. According to the research results, U.S. leaf tobacco that has been cured and processed, which is the only form in which U.S. flue-cured leaf is exported, poses no threat to China's tobacco industry. A copy of Dr. Harvey Spurr's position statement is attached.

Before this research was conducted, many international scientific authorities were convinced that China's phytosanitary restrictions on cured processed leaf had no scientific basis because U.S. leaf tobacco has been shipped around the world for many decades without a single incident of blue mold being spread from imported U.S. leaf. Now the definitive research has been done and confirms that China's phytosanitary restriction on leaf tobacco is based on unsound science and is being used to protect China's large domestic tobacco industry from U.S. competition.

The U.S. tobacco growers desperately need access to the China market. The growers' production quotas have been dramatically reduced by one-half during the last three years and China as the largest consumer of tobacco products in the world and has the potential for being a significant market for millions of dollars of U.S. grown leaf.

The blue mold issue must be resolved *now* in the context of the U.S. China Bilateral Trade Agreement and *before* China enters the WTO. China has been purchasing tobacco from countries where blue mold occurs. Obviously, China's selective use of this phytosanitary trade barrier against U.S. growers is being done to prevent competition from high quality U.S. leaf tobacco. We must use this opportunity of China's WTO accession to eliminate this unfair non tariff trade barrier.

Once the China market is open for U.S. tobacco growers, the tobacco state trading monopoly (China National Tobacco Corporation) must be required to have transparent trading practices to ensure that CNTC operates as a commercial enterprise according to WTO requirements. Additional road blocks such as prohibitive duties and non tariff trade barriers that may be used by China to impede trade must not be tolerated by the United States. The Congress should not allow China's protectionist trade policies and practices to continually distort our trading relationship. U.S. tobacco growers should have the same access to China's markets as tobacco growers from other competing countries.

Our Associations' thank the Chairman for the opportunity to present our statement to the House Ways and Means Committee.

J.T. Bunn

[An attachment is being retained in the Committee files.]

Statement of the U.S. High-Tech Industry Coalition on China

Eleven trade associations representing U.S. high-technology industries have joined together through the U.S. High-Tech Industry Coalition on China to work together on one of our highest priority public policy issues this year—China's accession to the World Trade Organization (WTO). The coalition represents U.S. manufacturers of semiconductors and semiconductor equipment and materials, computers, electronics, software, and telecommunications equipment, as well as U.S. Internet companies. A list of coalition members is attached.

The U.S.—China bilateral WTO accession agreement reached on November 15, 1999 is a solid win for U.S. high-technology industries. In that agreement, China committed to comprehensive reform of its economy, and to eliminate tariff and non-tariff barriers to trade, regulatory requirements and investment restrictions. As a result of this historic step, U.S. high-tech industries are poised to expand exports to this rapidly growing market, increase high-wage American jobs, and continue our technological leadership and competitiveness in international markets.

For our industry to reap the benefits of these market opening concessions that China has made, however, Congressional approval of permanent normal trade relations (PNTR) with China is necessary.

Opportunities in the Chinese Market

In the next decade, China is expected to become one of the largest markets in the world. Based on U.S. Commerce Department data, China represented the 12th largest high-tech export market in 1998, with electronics exports exceeding $3.0 billion. Electronics comprised 21 percent of total U.S. exports to China in 1998. The following provides an overview of the Chinese market for some of the key high-tech sectors.

Semiconductors and Semiconductor Equipment and Materials

The current semiconductor market in China is estimated to be up to $8 billion per year. Some analysts expect it to become the third largest semiconductor market by 2001 (ahead of Germany, but behind Japan and the United States) and the second largest by 2010. The current semiconductor equipment and materials market in China is estimated to be over $1 billion per year and is projected to reach almost $4 billion in 2003.

Computers

The market in China for computers is expanding rapidly, averaging 37 percent growth per year for the past three years. The Chinese market will continue to grow—International Data Corporation predicts that by 2003, China will be the third largest PC market after the US and Japan. More than 120 million Chinese citizens plan on buying a computer in the next two years.

Software

China's software market is growing at 28 percent a year. High growth rates will continue as Internet use in China continues to climb and piracy rates decrease. The Internet is projected to reach an estimated 20 million people in China by the end of 2000.

Telecommunications

China's market for cellular telecommunications is growing at a tremendous rate. By the end of 1999, China boasted approximately 40 million cellular subscribers, bringing it closer to its target of becoming the world's second largest cellular market with approximately 60 million subscribers. Only the cellular market of the United States is projected to be larger than China's by the end of this year. With the market potential for 3rd generation mobile communications also taken into consideration, China promises market opportunities for years to come.

Internet

More than 9 million Chinese are already on-line, and in the next few years China is expected to become one of the largest Internet markets in the world. This growing market offers tremendous commercial opportunities to U.S. firms. By participating in this market, U.S. Internet service and content providers can make sure that vital social services—such as education, communications and telemedicine—are delivered across the Internet. We can also lay the groundwork for e-commerce and the economic growth, productivity and jobs it will generate.

Benefits of China's WTO Accession

As the China accession negotiations began in earnest, the High-Tech Industry Coalition on China set forth its objectives for our negotiators. The package that they have come back with meets those objectives.

Under the terms of the November 1999 bilateral agreement, China's WTO accession would provide significant opportunities and benefits to U.S. high-tech industries. A summary of some of these key benefits follows.

• *Information Technology Agreement*: China has agreed to adopt the Information Technology Agreement (ITA), which eliminates tariffs on products such as computers, telecommunications equipment, semiconductors, semiconductor manufacturing equipment, computer equipment and other high technology products. China has agreed to eliminate nearly all of its IT tariffs (which currently average 13%) by 2003, and the remainder by 2005.

The benefits to U.S. high-tech industries are clear: duty-free entry of U.S. products should result in increased exports, sales and market share of U.S. products. In addition, American high-tech companies producing in China will have access to lower cost inputs. Finally, China's adoption of the ITA will help to combat smuggling, since the incentive for the creation a black market to circumvent tariff barriers will be removed.

• *Trading and Distribution Rights:* China will, for the first time, permit American and other foreign companies to directly import and export products—so-called trading rights. China has also, for the first time, agreed to permit American and other foreign companies to directly distribute their products, including wholesale and retail and after-sale service, repair, maintenance, and transport.

For American high-tech industries, the right to provide direct service is essential to control quality and ensure the authenticity of the spare parts being delivered. Indeed, in other important overseas markets, American firms increasingly are using quality service as a strategic weapon against foreign competitors to win customers and grow market share. The inability to deal directly with end-users is a particular problem in the semiconductor industry, where the design and development of application-specific chips requires extensive contact between semiconductor producers and the ultimate end-users of the chips.

Since China has agreed that all restrictions on trading and distribution rights will be eliminated three years after accession for most sectors, the benefit will be the ability for our industries to quickly excel in China's rapidly growing, competitive information technology market.

• *Investment Restrictions:* China has agreed to implement the WTO Trade-Related Investment Measures (TRIMS) Agreement upon accession. This means China will eliminate and cease enforcing trade and foreign exchange balancing requirements. China will also eliminate and cease enforcing local content requirements, and refuse to enforce contracts imposing these requirements. China will guarantee that laws or regulations to the transfer of technology or other know-how will be consistent with WTO obligations to protect intellectual property rights and trade-related investment measures.

China has also agreed that, upon accession, it will not condition investment approvals, import licenses, or any other import approval process on performance requirements of any kind, including: local content requirements, offsets, transfer of technology, or requirements to conduct research and development in China.

These provisions will help protect American firms against efforts by some Chinese officials to force the transfer of U.S. commercial technology to Chinese firms, which has been a significant issue for U.S. high-tech companies seeking market access or the right to invest in China.

• *State-Owned and State-Invested Enterprises:* China has agreed that it will ensure that state-owned and state-invested enterprises will make purchases and sales based solely on commercial considerations, providing U.S. firms with the opportunity to compete for sales and purchases on non-discriminatory terms and conditions. This is an important point for U.S. high-tech industries, since state-owned and state-invested enterprises currently control a significant share of domestic and international trade in commercial high-tech goods in China.

• *Telecommunications Services:* Included in China's concessions in the telecom sector, China agreed to open its telecom market to foreign service providers according to the following schedule:

• Phase-in of foreign participation in paging/value-added services in two years, allowing up to 50 percent ownership by foreign investors;

• Phase-in of foreign participation in mobile/cellular services over five years, allowing up to 49 percent ownership by foreign investors;

• Phase-in of foreign participation in fixed line/international long distance services over six years, allowing up to 49 percent ownership by foreign investors.

In addition, China agreed to sign onto the WTO Agreement on Basic Telecommunications Services (BTA). The BTA commits participating countries to open their telecom services markets. China has committed to a set of regulatory principles contained in the so-called Reference Paper to the BTA, and has therefore made specific commitments to open up its telecom services markets. These include providing access to the public telecom networks of incumbent suppliers under non-discriminatory terms and at cost-oriented rates. China also agreed to technology-neutral scheduling, meaning technology choices are made as commercial decisions, rather than government mandate.

The Ministry of Information Industry (MII) is preparing China for competition from foreign service providers after China's accession to the WTO. To meet this goal, China's second telecom carrier, China Unicom, is slated to buildout an additional national cellular network in 2000 based on Code Division Multiple Access (CDMA) technology. This development is very positive for U.S. telecom equipment manufacturers, as they are the world's leading suppliers of this technology. In addition, China introduced a new service provider into the market in 1999, China Netcom (CNC). This new company will focus on the provision of Internet Protocol (IP) telephony, allowing more efficient use of bandwidth on the Chinese networks.

• *Intellectual Property:* By joining the WTO, China will become subject to the Agreement on Trade Related Aspects of Intellectual Property (TRIPs). Moreover, China has agreed to be subject to all TRIPs obligations upon accession, without any transition period. The TRIPs agreement is the best vehicle available to high-tech industries to combat piracy of intellectual property and to create a healthy environment for the development of information technology in China.

Industry experts estimate that 95 percent of the business applications software used in China was pirated in 1998 (the last year for which data is available), depriving the software industry of nearly $1.2 billion in licensing revenue. If China were to bring its legal system into compliance with the standards in the TRIPs Agreement, the U.S. software industry should be much more able to enforce its rights in Chinese courts and administrative tribunals. However, the United States will be unable to ensure Chinese compliance with the TRIPs Agreement absent the grant of PNTR to China.

• *Antidumping:* The bilateral agreement enables the United States to maintain strong protections against dumping. Since China's economy is not fully market-oriented, it is critical that the United States maintains its ability to utilize its existing non-market economy methodology in the application of U.S. antidumping laws. The United States and China have agreed that the United States may maintain this current methodology for 15 years after the date of China's accession to the WTO.

PNTR is Necessary for the U.S. to Benefit from China's WTO Accession

The United States must approve permanent normal trade relations (PNTR) status for China in order for U.S. firms to receive the benefits of China's accession to the World Trade Organization (WTO). If China accedes to the WTO and the U.S. Congress does not pass legislation granting China PNTR, it is expected that the Administration would invoke its right of "non-application" under Article XIII of the WTO Agreement, as has been done with respect to other countries subject to the Jackson-Vanik Amendment. This would be done at the time China formally accedes to the WTO. Even though China would become a WTO member, the United States would not treat China as a WTO member. Moreover, China would not be required to treat the United States as a WTO member.

Without PNTR, an historic opportunity would be jeopardized for U.S. companies and their workers. The terms of the landmark U.S.—China bilateral agreement concluded in November and all other terms of China's WTO accession package would not apply to U.S.—China trade and investment, except to the extent that existing bilateral agreements make the WTO agreement terms binding between the two countries.

While the United States would receive some modest benefits, such as tariff cuts, under the terms of the 1980 bilateral agreement between the United States and China, many of the hard-fought concessions by the Chinese are not covered by this agreement. For example, China's agreement to eliminate forced technology transfer and investment requirements would not be extended to the United States. Nothing in the 1980 agreement requires the Chinese government to ensure that its state-owned and state-invested enterprises make their purchases solely on commercial terms, while China agreed to this commitment in the WTO accession agreement. Without PNTR, U.S. companies would not benefit from China's agreements to allow distribution rights for foreign companies and to allow investment in telecom and Internet services. Additionally, the United States would not have access to the WTO dispute settlement process to enforce intellectual property and other rights in the case of any noncompliance by China.

Annual NTR Extension is Not Sufficient

Article I of the General Agreement on Tariffs and Trade (GATT) requires that WTO members provide "unconditional" MFN treatment to other WTO members. This principle is a cornerstone of the WTO and an open global trading system.

Some have argued that the United States can meet this unconditional MFN obligation, and thus be entitled to China's WTO concessions, as long as Congress renews NTR on a continual basis. But under the Jackson-Vanik Amendment to the Trade Act of 1974, China's MFN status is tied to annual Presidential findings or waivers regarding freedom of emigration, which can be overridden by Congress through a joint resolution of disapproval. Continued annual renewal of China's NTR status would violate WTO rules because it would be *conditional* (on freedom of emigration per the Jackson-Vanik Amendment) and *discriminatory* (requiring procedures for China that are not applied to other WTO members). Approval for *permanent* NTR is necessary to meet the WTO's unconditional MFN obligation.

Conclusion

The American high-tech industry has been at the forefront of U.S. economic expansion and technological leadership. Granting China PNTR, coupled with the significant market reforms in China embodied in its WTO commitments, will enable our industry to expand its market presence and business opportunities in this critical market.

Moreover, access to American commercial information technology enables people worldwide to improve business efficiency across all sectors, enhance educational and social opportunities, and connect with one another. Improved market access for U.S. commercial information technology in China will help to advance economic and social reform in China. A timely congressional vote granting PNTR to China is a critical and necessary step toward securing this goal.

U.S. HIGH-TECH INDUSTRY COALITION ON CHINA

American Electronics Association
Business Software Alliance
Computer Systems Policy Project
Computing Technology Industry Association
Electronic Industries Alliance
Information Technology Industry Council
Semiconductor Industry Association
Semiconductor Equipment & Materials International
Software & Information Industry Association
Telecommunications Industry Association
United States Information Technology Office

Statement of U.S. Wheat Associates, Wheat Export Trade Education Committee, and National Association of Wheat Growers

Wheat producers across the United States strongly support China's entry into the World Trade Organization (WTO) and the immediate approval of permanent normal trade relations status for China.

China is potentially the world's largest wheat market. Unfortunately, it has maintained a non-tariff trade barrier on U.S. wheat exported from Pacific Northwest ports since 1972, and from Gulf ports since June of 1996, due to the perceived threat of Tilletia Controversa Kuhn (TCK), a wheat fungus known as TCK smut. This barrier to the Chinese market continues to have a very negative economic impact on all U.S. wheat producers.

In April of 1999, Prime Minister Zhu Rongji announced China's intention to lift its long-standing restrictions on the export of U.S. wheat from areas where TCK is known to occur. This agreement allows U.S. wheat to be exported from any state or any U.S. port to any Chinese port as long as these imports do not exceed a tolerance level of 30,000 TCK spores per 50-gram sample. This level can easily be met by U.S. wheat exporters while acknowledging China's concerns about this disease.

While the market access agreement is not tied to China's entry into the World Trade Organization, the Chinese unilaterally decided to link it to U.S. support for their WTO entry that has now been agreed upon. We had expected China to implement the TCK agreement immediately upon signing. We have strongly encouraged the Chinese to implement this agreement as a sign of good faith towards their WTO commitments.

This announcement followed more than 20 years of extensive—at times frustrating—discussions between the U.S. and China to resolve this issue. TCK restrictions were instituted due to China's concerns that its own wheat crop could become infected with TCK. It is significant that this longstanding dispute over TCK smut was resolved based on a framework that is consistent with the objectives of the Uruguay Round Agreement on Sanitary/Phytosanitary Measures (SPS). The SPS agreement is the heart of settling disputes of this type in the WTO as it requires that sound science, not political or other issues, determine whether products are safe to trade. Together, the United States and China agreed to let science, rather than political or other considerations, determine the terms of trade between our two countries.

Likewise in November of 1999, the United States and China completed negotiations on China's entry into the WTO. The agreement was formalized when the Chinese language version of the agreement was signed in Seattle last December.

In accordance with this agreement, China will liberalize its purchase of bulk agricultural commodities like wheat, corn, soybeans, rice and cotton. China will adopt tariff-rate quotas—that is, very low tariffs on a set volume of these bulk commodities. The wheat TRQ, for example, begins at 7.3 million tons and rises to 9.3 million tons by 2004. (Present import levels are below 2 million metric tons.) In all commodity TRQs, private traders will be guaranteed a share of the TRQ and a right to import using the portions of the shares given to state trading companies that are not used by the state agencies. This will help establish legitimate private-sector trade in China. Taken together, the TCK resolution and the U.S.—Chinese trade agreement, represent an important new commercial opportunity for U.S. wheat producers at a critical time for the economic health of the industry.

China is the world's largest wheat producing and largest wheat consuming nation. The U.S. is the world's largest wheat exporter. U.S. wheat exports to China have varied over the years, contingent upon Chinese wheat production levels and those of other wheat suppliers. Throughout the early 1990s, China imported from one million metric tons to 5.6 million metric tons of U.S. wheat each year. In recent marketing years, Chinese imports of U.S. wheat have declined significantly due to major increases in China's own production and the stringent enforcement of the TCK zero tolerance restriction.

Nevertheless, we expect China to once again become a major importer of U.S. wheat. We base our expectations on economic developments and production constraints in China. China has a huge and growing population, burgeoning coastal cities, growing demand, declining stocks, stagnant acreage and reduced domestic price supports. We anticipate that over a period of a few years, increased China trade would have a significant impact on the world supply and demand situation that should be positive for prices. To put it plainly, nothing else on the horizon could have such a big impact in the short term on U.S. wheat exports and the economic stability of wheat producers or hold such potential for expanded growth in the future.

USDA's baseline projection puts China's wheat imports at 4.2 mmt in five years. U.S. Wheat Associates estimates that the U.S. market share could be one third to one half of total Chinese imports. The U.S. market shares are very high in a number of neighboring countries and we believe that our market share with China has greater potential than most estimates. This is based on work by U.S. Wheat Associates personnel located in China who believes that China's wheat importers are focusing on the need for "quality" wheat. The import demand is projected to focus on wheat with qualities needed for better consumer products that are not produced in large quantities in China.

In order for U.S. wheat producers to realize the full potential of the Chinese market, it is absolutely critical that Congress approves legislation to grant China Permanent Normal Trade Relations status (PNTR) as soon as possible. As Ambassador Barshefsky said in her testimony before the House Ways and Means Committee there is "no option" to addressing PNTR now. There is no option for United States wheat producers but to have the opportunity to participate in the Chinese market. If we are to achieve the benefits of this long sought agreement and give producers the opportunity to market into this huge economy, China must be brought under the rules based system of the WTO. We have that opportunity with the agreements delivered in April.

By granting permanent normal trade relations for China Congress will be giving nothing away to China, our market is already open. However, you will be fulfilling one of the "unmet promises" of the 1996 Freedom To Farm Bill, that of continuing to provide export markets for U.S. farmers and ranchers. U.S. farmers would rather have open fair markets than receive payments from the government. Farmers want to add to the balance of payments by exporting their products.

This point is especially timely and crucial as the U.S. trade deficit reaches an all-time high. Our trade deficit with China, second highest after Japan, has ballooned to $68.67 billion in 1999 as reported by the U.S. Department of Commerce. The only way to counter this trend is to open markets throughout the world and facilitate the exportation of U.S. products. Bulk commodities such as wheat can have a substantial positive impact on the trade balance as demand for high quality foods continues to rise. The Chinese economy is poised to reach new heights and as their middle class swells it is imperative for U.S. producers to have fair and unfettered access to this market.

Various people including Ambassador Barshefsky, have stated that it would indeed be ironic if the United States after over 14 years of negotiations to include China in a rules based world trading system would decide not to grant them PNTR. By doing so we would be allowing our competitors to have the benefits of China opening its market—the most dynamic and rapidly growing in the world. U.S. leverage and any means of influencing China under the WTO rules system would be lost and the United States would yield its leadership in the trade arena.

The U.S. wheat industry is looking forward to working with the Chairman, this committee, and others in Congress to make permanent normal trade relations for China happen this year. The wheat industry will do everything it can to mobilize grassroots support, but it is necessary for supporters in Congress and the Administration to exhibit strong leadership and cooperation in order to deliver a positive vote for America's farmers, laborers and industries. This is an opportunity that we can not afford to let slip away. Thank you.

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